BUSINESS

Overview

We are a leading facilities-based provider of high quality, managed Internet infrastructure services to enterprises and service providers. We offer a comprehensive suite of managed Internet infrastructure services, including: Internet access through dial-up, dedicated and digital subscriber lines; web hosting and content delivery; and value-added e-business services, such as virtual private networks for secure data transmissions, security services and voice-over-IP. We operate a state-of-the-art global network that consists of recently deployed broadband fiber optic cable in the United States, points of presence, secure and fault-tolerant data centers and undersea and international fiber optic cable capacity. Our large base of on-network users and content, combined with our extensive network, positions us as one of the leading Internet backbone providers in the world, a status commonly referred to as a Tier 1 Internet backbone provider. Tier 1 Internet backbone providers have the network scale and on-network traffic to offer their customers connectivity to virtually all addresses on the Internet either directly through their Internet backbone or through cost-free, high speed private peering relationships with other Tier 1 providers. We believe that service providers are increasingly connecting to networks with substantial on-network content to improve the quality of their customers' experience, which in turn drives demand by enterprises seeking to connect to networks with large numbers of users. We believe that by taking advantage of this demand cycle, which we call the ''network effect'', we will continue to drive significant demand for our services from both enterprises and service providers and differentiate ourselves from non-Tier 1 Internet backbone providers. We provide managed Internet infrastructure services to approximately 6,500 enterprises and approximately 500 service providers, which include Internet service providers and application service providers.

Unlike many recent entrants into the Internet industry, we have more than three decades of experience in designing and implementing the architecture of the Internet and with solving computer networking problems. In 1969, our predecessor, BBN Corporation designed and helped to implement ARPAnet, which is widely recognized as the basis for the Internet today. Our network is recognized as the first Internet backbone and, accordingly, was designated AS-1. We also developed the first Internet router, delivered the world's first e-mail message and pioneered the use of the ''@'' symbol as a universal addressing standard for electronic mail. More recently, we were one of the first to offer commercially managed web hosting services and managed security services through outsourced firewall monitoring.

Industry Background

The Growing Importance of the Internet

The Internet has experienced tremendous growth in the past decade and has emerged as an important global medium for communications and commerce. The growth in data that is transmitted over the Internet is driven by a number of factors, including the rapidly increasing number of network-enabled and Internet-based applications, the growing number of personal computers linked to the Internet, advances in network-enabled devices, servers and routers and the increasing availability of broadband connections.

The explosive growth of the Internet and the increasing demand for data services are expected to continue. According to International Data Corporation, the number of Internet users worldwide will increase from 142 million at the end of 1998 to approximately 502 million by the end of 2003. In addition, according to International Data Corporation, the number of web pages is expected to grow from 1.7 billion in 1999 to approximately 13.1 billion in 2003. This growth is expected to lead to a substantial increase in the demand for bandwidth and other Internet infrastructure services.

The proliferation of the Internet within the business environment, in particular, has been substantial. Once primarily used for e-mail and retrieving information, the Internet is now being used as a communications platform for an increasing number of mission-critical Internet-based applications, such as those relating to e-commerce, internal networks or intranets, telephone and facsimile capabilities, supply chain management,

customer service and project coordination via extranets. The Gartner Group estimates that worldwide business-to-business e-commerce sales will grow from $145 billion in 1999 to approximately $7.3 trillion in 2004.

To improve the effectiveness and scalability of their critical Internet-based applications, both enterprises and service providers are requiring increasing levels of network performance, including capacity, reliability, security and manageability, across the Internet.

The Growing Demand for Outsourced Internet Infrastructure Solutions

As the Internet and data traffic have grown, the cost and complexity for enterprises and service providers to manage their own network infrastructure demands in-house has increased. Traditionally, enterprises were required to make substantial investments in developing the Internet expertise and infrastructure necessary to ensure the quality, reliability, security and availability of their Internet operations. The implementation and maintenance of Internet infrastructure solutions also require significant technical expertise and capital expenditures in a number of other areas, such as e-commerce systems, security and privacy technologies, advanced user interface and multimedia production. Moreover, the information technology departments within enterprises are constantly challenged by the need to implement their Internet business strategy, adopt new and rapidly changing technologies, transition to new broadband content applications and continuously update dynamically changing content. As a result, enterprises are seeking Internet infrastructure service providers that can minimize their exposure to the capital, human and technological risks associated with in-house solutions. To increase their competitive edge, enterprises are now outsourcing their critical Internet operations to increase performance and scalability, speed time-to-market and reduce costs.

Similarly, service providers are challenged by the rapid growth and increasing complexity of the Internet infrastructure, the dramatic increase in data traffic and the growing need to meet the demands of broadband applications. Service providers are increasingly required to devote substantial capital and human resources to expanding the capacity and the technological capabilities of their networks. As the demands of their customer base grow, these service providers find it more difficult to quickly, cost-effectively and efficiently deliver service through internal infrastructure expansion. As a result, service providers are increasingly focusing their resources on sales and marketing and outsourcing their Internet infrastructure requirements to organizations focused on developing and enhancing a scalable, high capacity Internet infrastructure.

The Development of the Internet Infrastructure Services Market

The growing demand from enterprises and service providers for outsourced Internet infrastructure services has led to the development of an Internet infrastructure service market comprised of companies focused on solving these outsourcing requirements. Many of these companies have endeavored to build or otherwise acquire network facilities in order to provide Internet access, while others have addressed more specific solutions, such as web hosting or security services. According to Forrester Research, the Internet access and web hosting markets in the United States are expected to grow from an aggregate of $4 billion in 1998 to $57 billion by 2003, representing a compound annual growth rate of approximately 70%.

Enterprises and service providers are increasingly demanding Internet infrastructure service providers that can deliver a high quality Internet experience for their users. The ability to deliver this high quality experience has become more difficult, largely as a result of an increasing number of Internet users and richer content, including graphics, photographs and streaming video and audio. In addition, as the number of networks connected to the Internet has grown, the delay and loss of data that is transmitted over the Internet has increased. This is particularly true at the major public peering points used to exchange data between networks in the United States. In order to increase performance, a number of Internet backbone providers have established private peering connections with other networks to exchange their traffic. The quality of an experience on the Internet is therefore highly dependent on the quality, capacity and reliability of the physical facilities over which Internet services are provisioned and the Internet backbone through which Internet access is provided and content is delivered.

The critical elements of delivering a high quality user experience are a large base of on-network users, content, and high speed, well-managed private peering relationships with other Tier 1 Internet backbones. Internet backbone providers that have these competitive strengths are able to route traffic to virtually all Internet addresses and avoid the need to route traffic across multiple networks and congested public peering points. Consequently, their users encounter fewer delays due to transmission bottlenecks across public peering points, and enterprise and service providers using these Internet infrastructure service providers are better able to manage the quality of experience of their end users.

Accordingly, enterprises and service providers increasingly look to the limited number of providers that offer a comprehensive suite of managed Internet infrastructure services, a large base of on-network users and content, reliable and scalable network facilities and Tier 1 Internet connectivity. We believe that we are among only a few companies in the world that offer the full complement of these attributes as part of their Internet infrastructure services solution.

Our Solution

Our solution enables our customers to outsource their Internet infrastructure needs to a single provider and to scale their Internet operations in a cost-effective and reliable manner. The key elements of our solution include:

Comprehensive Suite of Managed Internet Infrastructure Services. We offer a broad range of managed Internet infrastructure services, including: Internet access; web hosting and content delivery; and value-added e-business services, such as virtual private networks for secure data transmission, security services and voice-over-IP. Our services are designed to enable customers to purchase the level of service, features, access speed and functionality that meet their existing requirements, while at the same time allowing them to easily upgrade services over time. We believe there is significant opportunity to offer integrated services to enterprise customers as their requirements evolve from Internet connectivity to more critical Internet applications. As part of our solution, we install, configure, maintain and monitor industry-leading hardware and software, offer technical consulting and support, provide high-volume backup and recovery systems and monitor our Internet backbone operations 24 hours a day, seven days a week. Additionally, we provide flexible service pricing that allows our customers to be billed according to their bandwidth and capacity utilization.

Large Base of On-Network Users and Content. Because we provide Internet access services to many of the leading Internet service providers, including America Online, NetZero and Web TV, web hosting services for popular web sites as Yahoo! and ZDNet, and high speed connections to enterprises that host their own web sites, such as Microsoft, we carry a significant amount of traffic over our Tier 1 Internet backbone. We believe enterprises and service providers choose to connect to our Internet backbone because they can directly route traffic to, or receive content from, a significant number of other customers without the need to pass through private peering connections or overloaded public peering points. This capability results in higher transmission speeds, lower instances of data loss and greater quality of service, thereby improving the overall quality of experience for Internet users. We believe that service providers are increasingly connecting to networks with substantial on-network content to improve the quality of their customers' experience, which in turn drives demand by enterprises seeking to connect to networks with large numbers of users. We believe that by taking advantage of this demand cycle, which we call the "network effect", we will continue to drive significant demand for our services from both enterprises and service providers and differentiate ourselves from non-Tier 1 Internet infrastructure service providers.

State-of-the-Art Network. We operate a state-of-the-art, high capacity global fiber optic network that is highly reliable and scalable. Over 90% of our fiber has been deployed within the past two years, and a majority of our optical electronic equipment has been installed within the past year. Our highly redundant fiber optic network architecture is designed to minimize service interruptions in our network operations. We have significant additional capacity on our fiber network, which already carries a substantial portion of our traffic. This capacity allows us to scale quickly at favorable incremental capital costs as we meet increased customer

demands and continue our transition from leased capacity. We also operate eight data centers in the United States, one data center in the United Kingdom and one in Japan, through which we provide managed and collocated web hosting services for enterprises with critical Internet operations. Through our technologically advanced data centers, we offer customers a secure environment to house critical Internet operations and to obtain high bandwidth connectivity to the Internet.

High Performance, Tier 1 Internet Connectivity. We provide high performance connectivity to the Internet through our Tier 1 Internet backbone and extensive high speed private peering relationships with other major Internet backbone providers and, to a lesser extent, public peering points. Our extensive private peering relationships permit us to have direct, cost-free exchange of traffic with a significant number of telecommunications carriers and Internet infrastructure service providers, thus avoiding the congestion of public peering points when directing traffic to users connected to those Internet backbones. As a result, not only are we able to offer our customers direct access to our on-network users and content, but over 85% of the traffic we deliver to the rest of the Internet is delivered through private peering connections.

Significant Internet Protocol Engineering and Architectural Expertise. Drawing upon the breadth and depth of our IP and networking experience and expertise, including our 756 engineers and 1,119 technicians, we are able to quickly and cost-effectively identify the Internet infrastructure requirements of our customers and design and implement appropriate solutions. For service providers, this entails testing, certifying, deploying and scaling, within our network, the latest fiber optic and IP routing, switching and web hosting technology to provide cost-effective and highly reliable managed Internet infrastructure services. For our enterprise customers, we provide high quality IP solutions comprised of one or more of our services. For example, we combine our Internet access, web hosting, virtual private networks and managed security services to enable secure intranets and extranets for enterprises.

Our Strategy

Our objective is to be the leader in architecting, building and operating the infrastructure for the Internet economy. The principal elements of our strategy for pursuing this objective include:

Leveraging the Network Effect. We intend to continue to target enterprises and service providers with significant Internet infrastructure demands. The addition of an increasing number of service providers enables us to cost-effectively scale our network and attract enterprises that seek to connect to networks with a large number of users. The additional users that these service providers bring to our network attract enterprises that want to market their products and services directly to a larger base of users. We believe that attracting these customers will enhance our position as a leading provider of managed Internet infrastructure services as a result of the consolidation of a growing number of users and large volumes of content on our Tier 1 Internet backbone. We also believe that over time the scale associated with an increasing customer base will also allow us to pursue premium pricing with enterprise customers and minimize operating expenses sometimes associated with private peering connections to other Internet backbones.

Expanding Our Capacity and State-of-the-Art Network. We intend to continue to expand our capacity and state-of-the-art network in advance of the capacity demands of our customers. We plan to do this by accomplishing the following by the end of 2001:

- extending our coverage by deploying up to an additional 4,500 route miles of fiber optic cable serving approximately 120 metropolitan service areas and 11 additional international markets;
- expanding our network capacity in the United States to 10 layers of 10 gigabit capacity each;
- increasing our number of dedicated points of presence to nearly 300 and deploying local fiber rings within selected metropolitan service areas to increase our reach to end users;
- adding seven additional data centers in key locations worldwide to address the growing demands for our web hosting and content delivery services;

- expanding our network collocation facilities to enable our service provider customers to reach new markets quickly and cost-effectively; and
- deploying state-of-the-art optical electronic equipment to maximize the capacity of our fiber network.

Continuing to Build and Own Our Network Facilities. As we expand, both domestically and internationally, we intend to build and own the majority of our network facilities rather than leasing them from other facilities-based providers. We believe that owning our network facilities:

- provides greater control over the performance, reliability and breadth of our managed Internet infrastructure services;
- enables us to increase our capacity more quickly to meet increasing bandwidth demands;
- generates higher gross margins than would be generated through leasing circuits from other facilities-based providers; and
- improves service delivery to customers by reducing reliance on third-party providers.

Expanding Our Distribution Capabilities. We intend to develop and expand our direct sales force and our strategic alliances with other Internet-focused companies in order to expand our distribution capabilities. Currently, we have over 350 persons in our direct sales force, and we intend to substantially increase this sales force by the end of 2001. During the same period, we plan to substantially increase our Electronic Business Consultant organization, which is a group of highly skilled sales consultants that are able to aid our existing and potential customers in designing e-business solutions based on our managed Internet infrastructure services. In addition, through our eP@rtner Program, we have formed alliances with leading web integrators, e-business consultants, interactive agencies and other technology providers. We have formed similar alliances with international Internet service providers through our Net.Alliance program to expand distribution outside of the United States. Our current partners in these programs include, among others, Agency.com, Cambridge Technology Partners, Cisco Systems, Ernst & Young, Hewlett-Packard, IBM, Lante, Microsoft, Nortel Networks and Sapient in the United States, Energis in the United Kingdom and I.NET and Tiscali in Italy. These alliances serve as a valuable, cost-effective channel for marketing our services. We also plan to expand our existing reseller relationships to significantly enhance our distribution capabilities.

Pursuing Strategic Transactions and Alliances. We intend to pursue selective acquisitions that will allow us to quickly and cost-effectively extend our geographic presence and customer base, particularly in international markets. Additionally, we intend to make strategic investments in or enter into joint ventures or alliances with complementary businesses to broaden our market presence or expand our strengths in key services. We believe that successfully pursuing these strategic transactions or alliances will enable us to expand our geographic and service reach and to broaden our Internet infrastructure services for our customers.

Using Our Extensive Internet Protocol and Networking Expertise to Develop New Services. We intend to use our long history of IP and networking expertise to strengthen our reputation as a leader in the development and deployment of innovative Internet infrastructure services. We were one of the first to offer commercially managed web hosting services and managed security services. We plan to continue to develop and introduce innovative services that address the evolving requirements of our enterprise and service provider customers. We are pursuing initiatives such as IP-based voice virtual private networks, enhanced multi-media streaming and content distribution services and wireless and satellite access services. In addition, we plan to partner with or make investments in innovative Internet start-ups and other organizations to enhance both our access to and incorporation of leading technologies.

Establishing Genuity as a Leading Brand for Internet Infrastructure Services. We intend to establish Genuity as a leading brand for managed Internet infrastructure services worldwide. We plan to increase brand awareness by pursuing an aggressive marketing strategy involving television, radio and print advertising as well as extensive public relations efforts. We will pursue additional marketing campaigns specifically targeted at enterprises and service providers. We also intend to build brand recognition by continuing to work closely with our eP@rtners and Net.Alliance partners to increase our exposure to a broader base of customers.

Our Services

We provide a comprehensive suite of managed Internet infrastructure services targeted to two primary customer groups, enterprises and service providers. Our services fall into the following four categories:

- Internet access;
- web hosting;
- value-added e-business services; and
- transport services.

Our enterprise customers rely on our comprehensive suite of managed Internet infrastructure services to create and implement their e-business strategies. Our service provider customers rely primarily on our Internet access and web hosting services, which enable them to focus on the retail aspects of their business while we provide and manage the underlying scalable infrastructure necessary to deliver services to their customers. We believe our focus on developing and tailoring services to meet the needs of our target customers, as well as the scale and diversity of our services, differentiates us from our competitors.

Internet Access. We offer a variety of Internet access services to our enterprise and service provider customers, including dial-up, dedicated and digital subscriber lines. We also provide a range of customer premise equipment that is necessary to connect to the Internet, including routers, channel service units or data services units, modems, software and other products. Our Internet access services, which accounted for over 77% of our total revenues in 1999, include:

- *Dial-up Access.* Our dial-up access service enables users to connect to the Internet using a local telephone number. Our customers can connect to our Internet backbone through more than 800 local access points in the United States and, through our reseller relationship with iPass, a remote access provider, through approximately 1,500 international local access points in more than 150 countries. DiaLinx℠, which is our remote dial-up access service for enterprises that enables them to provide their mobile professionals, telecommuters, customers and business partners with guaranteed, cost-effective local dial-up access to their intranets and extranets, as well as the Internet, from around the world. Similarly, our DiaLinx ISP service enables Internet service providers to expand their existing dial-up access service without incurring substantial up-front capital costs and ongoing operational expenses. For other Internet service providers and organizations that want to quickly offer their customers a private-label, Internet dial-up access service without incurring up-front and ongoing investments in network infrastructure or the burden of providing back office support, we offer a virtual Internet service provider service, called DiaLinx VISP ℠.
- *Dedicated Access.* Our Internet Advantage ℠ and ISP Direct ℠ services connect enterprises and service providers directly to the Internet through a dedicated high speed connection. These services are available throughout the United States and in more than 60 other countries. We offer a broad spectrum of dedicated connection types with flexible pricing structures, as well as comprehensive service level guarantees. We offer dedicated Internet access at speeds ranging from T1, including fractional up to 1.5 megabits per second, to OC-12, which is capable of transmitting data at 622 megabits per second.
- *Digital Subscriber Line Access.* Our digital subscriber line access service enables high speed digital transmission over telephone lines. This service allows an end user to use the telephone while connected to the Internet with only one connection. Unlike dial-up access services, our digital subscriber line access service provides a full-time connection that is "always on". We currently offer service in 24 major metropolitan service areas throughout the United States, with expansion planned to over 50 major metropolitan service areas, covering over 60% of the United States population, by the end of 2000. Our digital subscriber line access services are available in a wide range of dedicated access speeds, from 144 kilobits per second to 1.5 megabits per second. Our digital subscriber line access services for enterprises are designed to meet the needs of telecommuters, branch offices and

small businesses by providing high quality Internet access at speeds faster than dial-up and Integrated Services Digital Network and offered for a fixed monthly fee. In addition, for our service provider customers, we coordinate all activities necessary to provide digital subscriber line access service, including service establishment, network connectivity, bulk billing and second tier technical support.

Web Hosting. Our web hosting services, which accounted for 7% of our total revenues in 1999, enable enterprises and application service providers to outsource the storage and management of their web servers to our special purpose web hosting facilities. Our Enterprise Advantage℠ web hosting service provides reliable web hosting and high speed network infrastructure, flexible, fast, and secure web hosting platforms and experienced technical support staff. We currently operate 10 data centers throughout the world, with eight in the United States, one in Leeds, England and one in Tokyo, Japan. Each data center is located in the same building as, or in close proximity to, our network access points. Our data centers are technologically advanced facilities with redundant, high speed connectivity to the Internet, uninterruptible power supplies, back-up generators, fire suppression, raised computer floors, separate cooling zones, seismically braced racks and high levels of security. Our Enterprise Advantage services include:

- *Managed Web Hosting.* Our managed web hosting service provides fully managed, secure and reliable web hosting capabilities for businesses operating in Windows NT or UNIX environments that want to use our expertise to implement and manage their web site infrastructure. We manage the systems and platforms and also retain ownership of equipment and software.
- *Customer Managed Web Hosting.* Our customer managed web hosting service is designed for enterprises that require administrative control of their web sites but prefer to partner with an experienced, reliable web hosting provider. This service provides our customers with pre-configured server hardware and software, Internet access and the benefit of secure and continuously monitored data centers. Our customers retain full responsibility for the content and administration of their web sites.
- *Collocation Web Hosting.* Our collocation web hosting service is designed for enterprises that seek to own their own equipment and retain full responsibility for management, content and administration of their web sites, but need a secure and scalable hosting facility with high performance connectivity.
- *Content Delivery and High Availability Services.* For customers with high traffic web sites, we also offer optional, high availability services that can increase web site capacity and performance. We currently offer four high availability services:
    - *LoadBalancer.* Our LoadBalancer℠ service creates a single web address that represents multiple web servers located in a single data center. These web servers utilize advanced load balancing techniques, based on the number of users seeking access to the web site, to connect users to the web server that will produce the fastest response to their request.
    - *Traffic Distributor.* Our Traffic Distributor service is designed for web sites requiring high reliability and involves hosting web servers in multiple data centers. Enabled by our patent-pending Hopscotch™ load distribution technology, this service enhances the experience of an end user by directing their content requests to the web server offering the fastest and most reliable service.
    - *Site Replicator.* Site Replicator enhances web site availability by mirroring web site content between multiple servers. Site Replicator copies new files, scripts and web images from the primary server to the other servers within its defined group. Site Replicator is a flexible web data replication tool, using efficient algorithms and intelligent data transfer techniques to minimize overhead and ensure that content on all web servers is synchronized.
    - *Site Accelerator.* Site Accelerator brings web site content geographically closer to users, which reduces web page load times. Because this service is performed in our network, our customers receive the benefits of caching without any capital investment. Site Accelerator splits the task of

serving content between the cache servers in our network and the dedicated web site servers. When the content is moved to our cache servers, the dedicated web site servers are freed up, permitting more users and more transactions without sacrificing performance from the perspective of the end user.

Value-added e-Business Services. As enterprises and service providers continue to use the Internet as a business-critical tool, we believe they will increasingly demand a wider range of e-business services to ensure security, enhance productivity, reduce costs and improve service reliability and scalability. Today, we offer a range of value-added e-business services, including:

- *Virtual Private Networks.* With our virtual private network service, we enable an enterprise and its employees, customers, suppliers and business partners to securely send and receive information to and from each other via encrypted dial-up, dedicated, digital subscriber line or cable-modem Internet connections. Our VPN Advantage SM service is a managed virtual private network service that makes it possible to communicate securely over our Internet backbone and over the Internet from virtually anywhere in the world. With VPN Advantage, our customers benefit from the capabilities of a large, shared IP-based network infrastructure while maintaining the look and feel of their own private corporate network.
- *Managed Security Services.* Our managed security services are scalable and can be customized to our customers' needs and provide a high level of protection for their corporate networks. Our managed security services include monitoring the network perimeters of our enterprise customers, 24 hours a day, seven days a week, and use of firewall management, maintenance and proactive response techniques to ensure the security of access points into their computing infrastructure. Our Site Patrol SM for FireWall-1® and our Security Advantage SM are Internet security services that help to significantly reduce exposure to Internet security threats and firewall breaches. In addition, we offer a vulnerability assessment service, Site Scan SM, that helps enterprises strengthen their network perimeter security by periodically testing for potential weaknesses and generating recommendations for correcting them.
- *Voice-over-Internet Protocol.* Through our suite of voice-over-IP services, including International VoIP Direct SM and ESP Direct SM, we offer low-cost, high-quality voice-over-IP network transport to Internet service providers, Internet telephony service providers, enhanced service providers and telecommunications companies providing voice-over-IP services to their customers. We seek to provide our customers with accelerated time-to-market for their customers through innovative, enhanced solutions enabling voice services such as personal computer-to-phone and personal computer-to-personal computer.

Transport. Our transport services are generally purchased by telecommunications carriers and Internet service providers requiring additional capacity. In delivering these services, we provide a single point of contact for planning, ordering, installing, billing, maintaining and managing the transport services of our customers. Our transport services, which accounted for 12% of our total revenues in 1999, include:

- *ATM Service.* Our ATM transport service solution is targeted primarily at carriers and Internet service providers with high bandwidth voice, video and data transmission requirements. We provide ATM connections between one or more locations. Our ATM transport services provide logical permanent virtual connections, thereby supporting applications that send information at a constant or variable bit rate. We offer a wide range of speeds at one megabit per second increments and match the application needs to the desired amount of bandwidth.
- *Private Line Service.* Our private line service provides dedicated point-to-point transport services through non-switched, non-usage sensitive dedicated facilities. Our private line service is supported over our dedicated Synchronous Optical Network, or SONET, facilities, which results in a highly reliable network. These services are comprised of bandwidth delivered in units of: (1) DS-3, which is capable of transmitting data at 44.736 megabits per second; (2) OC-3, which is capable of transmitting data at 155.520 megabits per second; (3) OC-12, which is capable of transmitting data at 622.080 megabits per second; and (4) OC-48, which is capable of transmitting data at 2.488 gigabits per second.

- *Network Collocation Services.* Our collocation services provide our customers with a physical location to collocate communications equipment at our points of presence. This service allows our service provider customers to expand their market areas without extensive recurring real estate charges, build-out fees and overhead costs.

Our Network

We operate a state-of-the-art, facilities-based global fiber optic network designed specifically for IP technology. We own the core components of our network infrastructure in the United States through indefeasible rights of use, or IRUs, for the underlying fiber optic cable. Within the United States we also lease capacity from third parties to provide service to our customers. As of the end of 1999, we estimate that over 50% of our traffic was transmitted over this leased capacity. We are in the process of transitioning traffic from leased capacity to our network infrastructure and expect that over 80% of our traffic will travel over our owned network by the end of 2001. We also own undersea capacity through IRUs and lease capacity internationally. Our current network infrastructure consists of:

- over 17,500 route miles of owned inter-city fiber cable in the United States that passes through the largest 100 metropolitan service areas and substantial additional leased capacity;
- undersea capacity to Europe via Atlantic Crossing-1 and to Asia via TPC-5;
- over 70 dedicated points of presence in the United States through which high speed dedicated Internet access is provisioned;
- over 800 local access points of presence for dial-up access in the United States and, through our reseller relationship with iPass, an additional 1,500 local access points of presence in more than 150 other countries;
- nine points of presence in international markets, including Amsterdam, Dublin, Frankfurt, London (2), Milan, Paris, Sydney and Tokyo, with the ability to provide service from over 200 additional points of presence in over 60 countries though leased facilities; and
- eight data centers located in the United States and one each in the United Kingdom and Japan.

We plan to substantially expand our network infrastructure, both domestically and internationally. Through the end of 2001, we plan to:

- extend our coverage by deploying an additional 4,500 route miles of fiber cable serving approximately 120 additional metropolitan service areas in the United States and build local fiber rings in major metropolitan service areas in the United States;
- utilize additional international undersea capacity to: (1) Europe via TAT-14 and FLAG Atlantic; (2) Latin America via Americas II; (3) the Caribbean via ARCOS-1; and (4) Asia via Japan-US cable network;
- expand our network capacity in the United States to 10 layers of 10 gigabit capacity each;
- add more than 200 additional dedicated points of presence for access in the United States;
- add an additional 11 points of presence in key international markets;
- add approximately 800,000 additional modems to our North American dial-up infrastructure and expand our coverage to an additional 300 local markets in North America;
- expand our broadband coverage to 80 metropolitan service areas and surrounding cities in the United States; and
- build seven additional data centers in key locations worldwide, which will increase our existing capacity by approximately 1.2 million square feet.

As we expand our network infrastructure, both domestically and internationally, we intend to primarily build and own our facilities rather than lease them from other facilities-based providers. In addition, we have taken the flexible approach of utilizing multiple fiber providers to ensure higher reliability, quicker deployment of new technology and faster provisioning for our customers. Our network infrastructure has the following characteristics:

High Performance, Reliability and Quality. The geographic reach and state-of-the-art nature of our network enhance our ability to provide a high quality user experience. We have incorporated a variety of technologies in our network to ensure high performance and reliable transmission. These technologies include OC-192, which is capable of transmitting data at 10 gigabits per second, and SONET transmission equipment employing self-healing protection switching. These technologies, combined with our ring-based architecture, increase network reliability and minimize the risk of service outages. In the event of a failure in any segment of our network infrastructure, traffic is automatically rerouted across different fiber strands with virtually no interruption in service. Additionally, our network infrastructure makes extensive use of railroad rights-of-way that typically offer greater protection for the fiber than fiber deployed over other rights-of-way such as highways, telephone poles or overhead power transmission.

Capacity on Demand. We currently have an indefeasible right to use over 17,500 route miles of fiber in the United States, with virtually all of these fiber route miles having 24 separate strands. These fiber route miles, which form the core of our network infrastructure in the United States, were operational at the end of 1999. The majority of the fiber deployed in our network infrastructure is state-of-the-art Lucent True Wave® non-zero dispersion shifted fiber. This fiber supports multiple wavelengths, each running at 10 gigabits per second, thus allowing for more capacity on a single fiber strand. Our fiber network, combined with our network design, enables us to take advantage of the most recent advances in optical electronic transmission equipment. For example, we generally are using only four of our existing 24 strands of fiber, each of which supports up to eight wavelengths per fiber at 10 gigabits per second data transmission using current generation optical electronic transmission equipment. However, as optical electronic transmission equipment providing 16, 32, 50 or even higher numbers of wavelengths per fiber becomes commercially available, we plan to deploy this equipment as needed on unused fiber strands to expand the capacity of our network infrastructure. With the advanced nature of our fiber network and the advances in optical electronic transmission equipment, we believe we will have sufficient capacity on our existing fiber in the United States for the foreseeable future. In addition to our owned facilities, we supplement our existing route miles with leased capacity from other providers.

Advanced Network Architectures. We believe that owning our network allows us to implement new network architectures as they become technologically feasible. For example, IP over dense wave division multiplexing will eliminate the need for the SONET network layer by relying on IP routers and the dense wave division multiplexing equipment to perform the re-routing that SONET currently performs. Furthermore, advanced optical networking transmission equipment will enable traffic to be switched and routed without being converted to an electrical signal first. We believe our engineering and architectural expertise will enable us to quickly deploy these new architectures and technologies, thereby reducing the complexity of data systems, increasing flexibility and reducing costs.

Flexible Platform for Multiple Services. Our network has been specifically designed for IP and can carry any form of packet data, including voice, video and traditional data services. While many carriers and service providers use multiple networks and platforms to deliver these distinct services, our IP-optimized network provides a single platform that simplifies network management, customer support and service delivery. In addition, ownership of our facilities enables us to deploy new or enhanced services more quickly. For example, we designed and deployed one of the first architectures to transmit real-time voice and data packets with reliability and performance substantially equivalent to the public switched telephone network. Moreover, our architecture allows for rapid scalability of capacity, quick geographic expansion and cost-efficient implementation of new services and features.

Our Data Centers

We currently operate 10 data centers that have been specifically designed for managed web and application hosting services and high capacity connectivity to our network. We have eight data centers in the United States, located in Palo Alto, California; San Jose, California; Los Angeles, California; Phoenix, Arizona; Chicago, Illinois; Cambridge, Massachusetts; Washington, D.C.; and New York, New York. We also have one data center in each of Leeds, England, and Tokyo, Japan. Our data centers are strategically located in the same building, or in close proximity to, network access points, and all are directly connected to our Internet backbone. Our data centers are technologically advanced facilities with redundant, high speed connectivity to the Internet, uninterruptible power supplies, back-up generators, fire suppression, computer floors, separate cooling zones, seismically braced racks and high levels of physical and network security. Our highly trained staff monitors these systems 24 hours a day and seven days a week. By the end of 2001, we plan to add seven data centers, adding approximately 1.2 million square feet of additional capacity. Each of these new data centers will be directly connected to our network and will be designed specifically for mission-critical servers with complete redundancy of all support systems. These seven new data centers will be located in Los Angeles, California; Mountain View, California; Atlanta, Georgia; Cambridge, Massachusetts; Carteret, New Jersey; Dallas, Texas; and Chantilly, Virginia.

Our International Operations

We provide global coverage for our international customers. Today, we lease our network facilities in international markets, including back haul services from over 200 local points of presence in 60 countries and a SONET fiber ring connecting London, Paris, Frankfurt and Amsterdam, which is capable of transmitting data at 155.520 megabits per second. We are able to provide dedicated access services in more than 60 countries and enable global dial-up access service in more than 150 countries. We provide web hosting services out of our data centers in the United Kingdom and Japan and we have the capability to provide managed security and virtual private network services in over 39 countries. We have nine points of presence in international markets, including Amsterdam, Dublin, Frankfurt, London (2), Milan, Paris, Sydney and Tokyo. All of our international points of presence are capable of accepting voice-over-IP traffic for delivery in the United States.

By the end of 2000, we plan to add 11 additional points of presence in the following locations: Manchester; Madrid; Stockholm; Dusseldorf; Hamburg; Hong Kong; Buenos Aires; Sao Pãulo; Rio de Janeiro; San Juan; and Mexico City. By the end of 2000, we also plan to deploy one of the first OC-48 fiber rings in Europe employing IP over dense wave division multiplexing. We believe this fiber ring network connecting London, Amsterdam, Frankfurt and Paris will dramatically improve our ability to provide high-end data services and is required to meet our rapidly growing traffic in Europe.

In terms of trans-oceanic capacity, over the past two years we have entered into a number of agreements for indefeasible rights of use to cable systems that are either deployed or in the process of deployment. The following table details our current and planned international cable capacity. The expected dates of deployment represent approximate time frames in which we believe our capacity on this cable will become operational and are primarily based on construction timelines provided to us by third parties.

Cable System	Capacity	Terms	Expected Deployment
Americas II	U.S.-Brazil (One STM-1)(a) U.S.-Venezuela (One STM-1) U.S.-Puerto Rico (One DS-3)(b)	25 Years (IRU)	Q3 2000
Atlantic Crossing-1	U.S.-United Kingdom (Two STM-1s) U.S.-Germany (One STM-1) United Kingdom-Netherlands (One STM-1) United Kingdom-Germany (One STM-1)	25 Years (IRU) Lease Lease Lease	In Service
Japan-U.S. Cable Network	U.S.-Japan (Six STM-1s) U.S.-Hawaii (One STM-1) Upgrade Capability to 28.5 STM-1s	25 Years (IRU)	Q4 2000
TAT-14	U.S.-France-Netherlands-Germany-Denmark-U.S. (30 STM-1s)	25 Years (IRU)	Q1 2001
FLAG Atlantic-1	U.S.-United Kingdom-France-U.S. (Portable Capacity) Seven STM-1s Initially Upgrade Capability to over 50 STM-1s	25 Years (IRU)	Q2 2001
ARCOS-1	U.S.-Caribbean (Portable Capacity) Two STM-1s Initially Upgrade Capability to 21 STM-1s	25 Years (IRU)	Q1 2001
TPC-5	U.S.-Japan (One DS-3)	Lease	In Service

(a) STM-1 is capable of transmitting data at 155.520 megabits per second.

(b) DS-3 is capable of transmitting data at 44.736 megabits per second.

Research and Development

We believe that the task of building an Internet infrastructure services business is primarily one of integrating third-party systems, technologies, communications equipment, software and services to provide reliable, highly scalable and cost-effective Internet infrastructure services. Therefore, we generally use commercially available equipment. Our 30 years of IP and networking experience and expertise not only enables us to assess the technology and quality of potential vendors and to assist them in making their products more responsive to the needs of our customers.

We continually monitor research developments in the various industries supporting our business. We work closely with the engineering groups of our existing vendors, technology partners, innovative start-up companies and complementary service providers to incorporate advanced technology, features and services. For example, we have worked closely with Cisco Systems, one of our primary suppliers, to develop new equipment and have been regular participants in its Technical Advisory Group. Through this and other cooperative programs, we strive to ensure that new hardware designs address the evolving requirements of our business and those of our customers.

In addition, we plan to work with innovative start-up companies to assist them in developing and implementing advanced technologies and converting these technologies into market-ready products and services. A key component of our strategy will be to develop strategic relationships with those start-ups that have technology or services that can help us expedite the execution of our business plan. The strategic nature of these relationships could take the form of acquisitions, technology transfers, equity investments or joint product development.

Our Customers

We primarily target enterprises and service providers. We have established a large and diversified base of enterprise customers in a wide range of industries, including financial services, manufacturing, media and publishing, consulting services and high technology. As of March 31, 2000, we had approximately 6,500 enterprise customers, the majority of which were located in the United States. The following is a representative list of our enterprise customers.

Financial Services

Block Financial
Prebon Yamane

Manufacturing

Carrier Corporation
Hasbro Interactive

Media and Publishing

Yahoo!
ZDNet

Consulting Services

ENTEX Information Systems
Sapient

High Technology

Cabletron
Sybase

Our customer base also includes many service providers, including application service providers, Internet service providers and telecommunications carriers. As of March 31, 2000, we had approximately 500 service provider customers, the majority of which were located in the United States. The following is a representative list of our service provider customers.

Consumer Internet Service Providers

America Online
NetZero

Business Internet Service Providers

I.NET S.p.A.
Ipass

Telecommunications Carriers

Pacific Gateway Exchange
Tiscali S.p.A.

Internet-Centric Related Services

Akamai Technologies
Digital Island

Our Relationship With America Online

We have supplied managed, dial-up access services in the United States to America Online since 1995. During the year ended December 31, 1999, America Online accounted for approximately 52% of our total revenues. We entered into a new agreement with America Online effective as of December 31, 1999, pursuant to which America Online has agreed to purchase additional dial-up Internet access services from us for a seven-year term through December 31, 2006. Under the new agreement, America Online has also agreed to purchase managed digital subscriber line and other broadband network access services from us for a five-year term through December 31, 2004. The components and resources used to provide dial-up access and broadband connections to our network backbone for America Online are dedicated to them and may not be used by us to service other customers. In addition, our Columbia, Maryland network operations center is dedicated to servicing America Online.

Dial-Up Services. Under the new agreement, America Online has committed to purchase from us agreed upon minimum quantities of dial-up network access services as measured by the number of dial-up access ports, or modems, available for America Online customers. America Online has agreed to increase the number of dial-up access ports to be managed by us through June 2002, subject to the terms and conditions of the agreement. America Online pays us a fixed monthly fee for each activated dial-up access port managed by us for it. Under the agreement, the monthly per access port fee to which we are entitled will be reduced at

specified intervals over the term of the agreement. In addition, we have agreed, subject to limitations, that if we offer a third party better pricing for comparable dial-up access services than that paid by America Online, America Online may gain the benefit of this better pricing.

At specified times during the course of the new agreement, America Online has the right to seek a reduction in the fees paid to us for access ports based on the then prevailing market prices for comparable dial-up access services. If we do not agree to reduce our charge to America Online for the applicable dial-up access ports to the market price, America Online may, subject to advance notice and other limitations, terminate future dial-up service commitments to us and decommission an equal number of its existing dial-up access ports with us.

Beginning January 1, 2003, America Online may, subject to advance notice and other limitations, decommission dial-up access ports managed by us in proportion to their decommissioning of dial-up access ports provided by other vendors. We are required to maintain a dedicated network operations center to service the portions of our network dedicated to America Online.

Broadband Services. Under the agreement, we also provide broadband services to America Online in connection with their digital subscriber line service offerings. America Online also has agreed to purchase additional network services from us in connection with its other broadband service offerings, including cable modem, wireless and satellite, as they offer additional broadband access options to their customers. America Online has committed to purchase from us the network services necessary to serve specified percentages of their digital subscriber line and other broadband customers. In connection with providing digital subscriber line service to an America Online customer, America Online is responsible for providing its customers with the local access circuit and we are responsible for the interconnection of that circuit to our backbone, transmission of the traffic to America Online and the monitoring, management and control of the network.

We receive a specified monthly fee for each America Online digital subscriber line and other broadband customer for whom we provide network services. Under the agreement, America Online pays us monthly fees based on the number of America Online broadband customers that are connected to our network, which fees are subject to agreed upon reductions as the number of America Online digital subscriber line and other broadband customers for whom we are providing services increases. In addition, we have also agreed to extend broadband network services. If we do not agree to reduce our fees to America Online for broadband network services to the market price, America Online may, subject to advance notice and other limitations, terminate future broadband service purchase commitments to us and terminate existing broadband service.

General. In providing America Online services under the agreement, we are obligated to comply with specified minimum service levels. Either party may terminate the agreement in the event the other party commits a material breach which is not cured within 30 days after notice of the breach. In addition, America Online has the right to terminate the agreement in the event of:

- repeated material breaches by us even if cured;
- a violation of the most favored customer pricing provisions;
- a total or near total outage of any of the services provided by us that, even if lasting fewer than 30 days, is widespread and prolonged;
- our inability to meet our service level commitments or to expand service availability as required under the agreement; and
- a change in control of us other than changes in control resulting from or arising out of the closing of the proposed merger of GTE and Bell Atlantic.

We are also obligated to provide America Online assistance in the 12 months following any termination of the agreement to ensure a smooth transition of services. The agreement provides America Online with a right of first refusal with respect to the sale of our dial-up network access business.

Under a separate agreement, we have agreed to provide dial-up network access services to America Online in Japan. This agreement includes similar provisions to those described above regarding minimum purchase requirements on the part of America Online Japan, market pricing adjustments, service level requirements and termination provisions.

Operations and Customer Support

We believe that a high level of operational and customer support is critical to our success in attracting and retaining enterprise and service provider customers. We provide superior customer support by understanding the evolving and often complex technical requirements and business objectives of our customers. We assist our customers by initially assembling design teams comprised of product specialists from all relevant areas of our organization, including Internet access, web hosting and security. These design teams work closely with our customers from the very beginning of the relationship to properly identify their Internet infrastructure requirements and design appropriate solutions. We also assign a project manager to this team when a customer is prepared to implement its solution. Our design teams can range from a small group for single service solutions to a dedicated multi-discipline team for complex solutions. We also assign an implementation engineer to coordinate all of our activities with a customer. Our implementation engineers assist customers in developing operational processes and databases for use within their internal support environment after installation.

We provide toll-free phone access, as well as e-mail or facsimile access, to our customer support centers. In addition, our web-enabled customer service tools allow our customers to track order and service status and request upgrades online. In addition, we have event management teams available 24 hours a day, seven days a week, to work with the appropriate organizations in the event of any major Internet-wide event that disrupts service. In these circumstances, we also utilize our automated emergency broadcast capability to quickly reach our customer by e-mail, telephone, facsimile or pager.

We provide operational support for all services 24 hours a day, seven days a week. We also have network engineers and operational support agreements with our vendors to provide us with support 24 hours a day, seven days a week. Our primary Network Operations Center is located in our Burlington, Massachusetts headquarters facility. This Network Operations Center is supported by dual external power grids with divergent entry, extensive failover battery backup and dual, on premises power generation stations. In addition, we have a Network Operations or Operations Support Center in the following locations: Cambridge, Massachusetts; Columbia, Maryland; Dallas, Texas; and Chantilly, Virginia. Our Columbia, Maryland network operations center is dedicated to servicing America Online. Our centers can perform disaster back-up for other centers. Our data centers are designed with these same commitments to availability, and we guarantee these capabilities with service level guarantees.

Sales and Marketing

Within the United States, we rely primarily on a direct sales force. This direct sales force focuses on U.S.-based enterprises and service providers with domestic and international service requirements. Our sales force within the United States generally works with the managers of the marketing, sales or finance departments, as well as with information technology officers within the enterprise. In addition, through our eP@rtners program, we have formed alliances with leading web integrators, e-business consultants, interactive agencies and other technology providers, which increases our access to potential service provider and enterprise customers. Our current partners in this program include Agency.com, Cambridge Technology Partners, Cisco Systems, Ernst & Young, Hewlett-Packard, IBM, Lante, Microsoft, Nortel Networks and Sapient. These alliances enable us to provide comprehensive e-business solutions and also serve as a valuable, cost-effective channel for marketing our services. We also plan to expand our existing reseller relationships to significantly enhance our distribution capabilities.

Internationally, we have both a direct sales force and a channel partner program, which we call our Net.Alliance program. Our international direct sales force focuses primarily on the international service provider segment, while our Net.Alliance partners are our primary channel to multinational companies based outside of the United States. Many of our Net.Alliance partners are both customers and resellers of our services. This channel gives us distribution capabilities in over 14 countries globally. Our current partners in this program include Energis in the United Kingdom and Tiscali and I.NET in Italy.

All of our sales representatives participate in extensive technical and consultative sales training programs that we believe enable them to better comprehend, respond to and resolve the complex networking problems of our customers. As of March 31, 2000, we had a direct sales force of over 350 people.

We only recently changed our name to Genuity. To be successful, we must establish and strengthen our brand recognition. We intend to incur significant expenses to promote our brand. Our marketing organization is responsible for developing the strength and awareness of the Genuity brand on a local, national and international basis. We intend to build brand awareness through a variety of methods, including radio, print advertising in trade journals and special-interest publications and our web site. In addition, we also employ public relations personnel in-house and work with an outside public relations agency to provide broad coverage in the Internet and computer networking fields. To a limited extent, we also directly market our services at seminars and trade shows such as Internet World, ISPCon, COMnet, CeBit and various Gartner Group information technology conferences.

Competition

The market for Internet infrastructure services is extremely competitive and subject to rapid technological change. We expect to encounter increased competition in the future as a result of increased consolidation and development of strategic alliances in the industry. In addition, we will compete with foreign service providers as we expand internationally and as these service providers increasingly compete in the United States market. Our principal competitors in the Internet infrastructure services market may be divided into Internet infrastructure service providers and niche players offering services competitive with one or more of our services.

Internet Infrastructure Service Providers. We believe our primary competitors are those Internet infrastructure service providers that offer a similar breadth of services and possess the network users and content to offer their customers connectivity to virtually all addresses on the Internet, either through their Internet backbone or through high speed private peering relationships that permit them to have direct, cost-free exchange of traffic with a significant number of carriers and other Internet service providers. These competitors include UUNET Technologies, a subsidiary of MCI WorldCom, AT&T, Cable & Wireless and Sprint. UUNET has substantially greater market share than we do, and some of the others also have greater market share than we do. UUNET is a competitor for America Online's access requirements and is reported to provide a substantial portion of those requirements. In addition, MCI WorldCom and Sprint have announced a proposed merger. We believe this proposed merger would substantially increase the market share and competitive position of UUNET, even if it were required to divest itself of portions of its Internet backbone as a condition to the merger. Some of these competitors also are able to bundle their Internet service offerings with other complementary services that we do not provide, such as local and long distance voice, data transmission and video services, thereby reducing the price of their services relative to ours. We may not be able to offset the effects of any price reductions. We also compete with an increasing number of Internet service providers that have a significant regional, national or international presence but do not offer as broad a range of services or possess fewer users and less on-network content than the infrastructure service providers listed above. These competitors include, among others, Level 3 Communications, Qwest Communications, KPNQwest, Deutsche Telekom, PSINet, Verio Communications and Williams Communications Group. As a result of the increase in the number of competitors and the vertical and horizontal integration that is occurring in this industry, we currently encounter and expect to continue to encounter significant competition, which could force us to, among other things, reduce our rates and invest more heavily in infrastructure.

We believe we compete with these competitors primarily on the basis of quality and quantity of on-network users and content, breadth of service offerings, geographic reach and quality of network infrastructure, capacity, quality of service and price. While we believe that our network infrastructure, comprehensive suite of services and expertise in designing, developing and implementing managed Internet infrastructure solutions distinguish us from our competitors, many of our existing and potential competitors have greater financial and other resources, more customers, a larger installed network infrastructure, greater market recognition and more established relationships and alliances in the industry. As a result, these competitors may be able to develop and expand their network infrastructure and service offerings more quickly, adapt more swiftly to new or emerging technologies and changes in customer demands, devote greater resources to the marketing and sale of their offerings, pursue acquisition and other opportunities more readily and adopt more aggressive pricing policies.

Niche Players. There are numerous competitors that service generally one or a small number of the specific Internet infrastructure requirements of enterprise customers. These competitors include, among others:

- web-hosting companies, such as Digex and Exodus Communications;
- broadband Internet access providers such as Covad Communications and Rhythms NetConnections, both of which focus on digital subscriber line services;
- providers of security and virtual private networks, such as Pilot Network Services; and
- transport service providers, such as Level 3 Communications, Qwest Communications and Williams Communications Group.

We believe that there are relatively few barriers to entry in these markets. We compete with these niche players on the basis of technical expertise, quality of service, reliability and price.

There are numerous other companies from a variety of industries that have also focused on our target market. For example, many of the major cable companies have begun offering, or are exploring the possibility of offering, Internet access through their current networks to include Internet access capabilities. Direct broadcast satellite and wireless communications providers have also entered the Internet access market with various wireless and satellite-based service technologies. We believe that direct broadcast satellite and wireless communications providers have also entered the Internet access market.

As we continue to expand our operations in markets outside the United States, we will also encounter new competitors and competitive environments. Our foreign competitors may enjoy a government-sponsored monopoly on telecommunications services essential to our business, and will generally have a better understanding of their local industry and longer working relationships with local infrastructure providers.

Employees

As of March 31, 2000, we had a total of 3,557 employees, of which 1,263 were in customer service and support, 866 were in engineering, 761 were in sales and marketing, 345 were in information technology and 322 were in finance and administration. Our employees are not represented by any collective bargaining agreement, and we believe that relations with our employees are good.

Real Estate Facilities

The following table provides information about our principal real estate facilities throughout the United States and abroad. We occupy our headquarters and primary Network Operations Center in Burlington, Massachusetts under a lease that expires in 2009. This lease includes renewal options for two three-year periods. We are constructing two new buildings in Woburn, Massachusetts, which are scheduled for completion in the next 12 months. We plan to move our corporate headquarters to one of these new buildings while retaining our Burlington, Massachusetts facility as an operations center. We lease space for our other Network Operating Center in Columbia, Maryland.

Proprietary Rights

We rely on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions to establish and protect our technology. We own, either exclusively or jointly, an interest in nearly 200 inventions that are the subject of patents, patent applications or patent disclosures. These legal protections provide only limited protection. Further, the market for Internet infrastructure services is subject to rapid technological change. Accordingly, while we intend to continue to protect our proprietary rights where appropriate, we believe that our success in maintaining a technology leadership position is more dependent on the technical expertise and innovative abilities of our personnel than on these legal protections.

Despite our efforts to protect our proprietary technology, we cannot assure you that the steps taken by us will be adequate to prevent misappropriation of our technology or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technology. The laws of many countries do not protect our proprietary technology to as great an extent as do the laws of the United States. We may need to resort to litigation in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others or to defend against claims of invalidity. We are also subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. Any resulting litigation could result in substantial costs and diversion of management and other resources and could have a material adverse effect on our business and financial condition.

Regulatory Matters

The following summarizes regulatory developments and legislation that we believe are currently material to us. It does not describe all present and proposed federal, state, local and foreign regulation and legislation affecting the telecommunications industry.

Our existing and planned Internet operations are not actively regulated by the Federal Communications Commission or any other government agency of the United States at the present time, other than regulations that apply to businesses generally. However, one of our subsidiaries, GTE Telecom, Inc., is classified as an "interexchange carrier" and provides primarily private line data services, primarily in the area of data transmission. As a result, this subsidiary is regulated as a telecommunications carrier and is subject to the requirements described below under "Telecommunications Services." Furthermore, the regulations governing the telecommunications industry generally are often subject to regulatory, judicial, or legislative modification and are in a state of flux at the present time. Some private parties and regulators have called the current regulatory status of various Internet service offerings into question. We cannot predict the actions of the regulatory authorities that have jurisdiction in this area or whether any of these authorities will attempt to impose new regulations on Internet services or expand their interpretations of existing regulations to make them apply directly to Internet services. Accordingly, we do not know whether current or future regulations could have a material adverse effect on us. If any regulatory authority imposes new regulations or expands their interpretations of existing regulations to make them applicable to Internet operations, some or all of the following rules may be applied to those operations. However, if new regulations are imposed on our industry, or existing regulations are expanded to cover our industry, these regulations will almost certainly also apply to all similarly situated parties offering comparable services, including our competitors.

Federal Telecommunications Regulation

Federal regulations have undergone major changes in the last four years as the result of the enactment of the Telecommunications Act of 1996. The Telecommunications Act is the most comprehensive reform of the telecommunications law in the United States since the Communications Act was enacted in 1934. For example, the Telecommunications Act imposes interconnection and access requirements on telecommunications carriers and on all local exchange carriers, including incumbent local exchange carriers and competitive local exchange carriers.

Under the current regulatory regime, communications related services are generally classified into one of the following three definitional categories: (1) information services; (2) private carrier services; and (3) telecommunications services or common carriage. Because the boundaries between these categories are neither precise nor well-fixed, and the industry is so dynamic, we cannot predict where particular services will be classified, now or in the future. The regulations associated with each type of classification are described below.

Information Services. Except for the provision of underlying basic transmission capability, Internet services have generally been considered to be "information services." Under current law, operators of information services are exempt from regulation by the Federal Communications Commission, but operators of telecommunications services are not similarly exempt. However, the Federal Communications Commission continues to review its regulatory position on the usage of the basic network and communications facilities used by Internet service providers. Whether it will assert regulatory authority over the Internet, and the level of any asserted authority, is a pending issue. While the Federal Communications Commission has determined in an April 1998 report to Congress that Internet access providers should not be treated as telecommunications carriers and therefore should not be regulated, it is expected that the status of various types of Internet service providers will continue to be uncertain. In the same report, the Federal Communications Commission also concluded that some of the services currently offered over the Internet, such as phone-to-phone IP telephone services, may be functionally indistinguishable from traditional telecommunications service offerings, and that their non-regulated status may have to be reexamined. The report also indicated that the Federal Communications Commission would determine on a case-by-case basis whether to subject IP telephone service providers to regulation, including whether to require them to contribute financially to universal service support mechanisms, which could also subject these services to other forms of regulation. The Federal Communications Commission has also stated that it may require Internet service providers that use their own transmission facilities to provide Internet access services to contribute to universal service mechanisms, and has previously considered and rejected the possibility of regulating Internet backbone peering arrangements, although that issue remains subject to further review.

Private Carrier Services. The offering of private carrier services typically entails the offering of telecommunications, but these services are provided to a limited class of users on the basis of individually negotiated terms and conditions that do not meet the definition of a telecommunications service under the Telecommunications Act. These private carriers are generally unregulated by the Federal Communications Commission, but are subject to universal service payment obligations, discussed below, based on their gross revenues from end users. These private carriers may also be subject to access charges if interconnected to local exchange facilities.

Telecommunications Services. A significant amount of regulation applies to providers of telecommunications services. The Communications Act defines telecommunications carriers as entities offering telecommunications for a fee, directly to the public or to classes of users so as to be effectively available directly to the public. The law does not distinguish on the basis of the facilities used to provide these services. "Telecommunications" is defined as the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received. The Federal Communications Commission has found that the definition of "telecommunications carrier" is essentially the same as the definition of "common carrier". Telecommunications carriers are subject to regulatory requirements that may impose substantial administrative and other burdens on their operations.

The Federal Communications Commission imposes regulations on some common carriers that have been found by the Federal Communications Commission to have some degree of market power, otherwise known as dominant carriers. The Federal Communications Commission imposes less regulation on other common carriers, which have been found by the Federal Communications Commission not to have market power, otherwise known as "non-dominant carriers", such as GTE Telecom, Inc. These non-dominant carriers do not need express prior authorization to provide domestic services and can file tariffs on one day's notice. The Federal Communications Commission requires common carriers to obtain a formal authorization to construct

and operate telecommunications facilities and to provide or resell telecommunications services between the United States and international points. The Federal Communications Commission also regulates carrier exits from markets.

General Obligations. All telecommunications carriers are subject to the complaint process and rules and regulations of the Federal Communications Commission, as well as various other requirements set out in Title II of the Communications Act of 1934, as amended. In addition, telecommunications carriers have the following general obligations:

- not to charge unreasonable rates or engage in unreasonable practices;
- to provide service on reasonable request;
- not to unreasonably discriminate in their service offerings;
- to comply with reporting requirements;
- to offer customer premises equipment for sale on an unbundled basis to the extent that it is offered;
- to allow resale of their services in some circumstances; and
- to restrict their use of customer information.

In addition, telecommunications carriers are subject to other regulatory requirements and are required to contribute to the Universal Service Fund, the Telecommunications Relay Service Fund, the Number Portability Fund and the North American Number Plan Administration Fund. Telecommunications carriers must also pay regulatory fees associated with filing license applications and other documents with the Federal Communications Commission.

Interconnection Obligations. All telecommunications carriers have the basic duty to interconnect and interoperate, either directly or indirectly, with the facilities of other telecommunications carriers.

Section 214 Authorizations. Common carriers are obligated to obtain, under Section 214 of the Communications Act, authorization from the Federal Communications Commission to provide services between the United States and other countries, and to disclose, among other things, the extent to which they are owned or controlled by foreign entities. The compliance with these regulatory requirements imposes administrative and other burdens on these carriers.

Tariffs and Pricing Requirements. The Federal Communications Commission has eliminated the requirements that non-dominant interstate interexchange carriers, such as GTE Telecom, maintain tariffs on file with the Federal Communications Commission for domestic interstate services. Under the rules of the Federal Communications Commission, after a nine-month transition period, relationships between interstate carriers and their customers would be set by contract. At that point, the Federal Communications Commission would no longer recognize or accept tariffs for interstate, domestic interexchange services. Currently, a court imposed stay is in effect and interstate long distance telephone companies are therefore still required to file tariffs. However, competitive access providers do not have to file tariffs for their exchange access services, but may if they choose to do so. There has been no proposal to detariff international services.

Customer Proprietary Network Information. The use by a telecommunications carrier of customer proprietary network information, which generally includes any information regarding a subscriber's use of a telecommunications service obtained by a carrier solely by virtue of the carrier-customer relationship, is subject to statutory restrictions. This customer proprietary network information does not include a subscriber's name, telephone number and address, if that information is published or accepted for publication in any directory format. A telecommunications carrier may use a customer's proprietary network information only to market a service that is "necessary to, or used in" the provision of a service that the carrier already provides to the customer, unless it receives the customer's prior oral or written consent to use that information to market other

services. The rules of the Federal Communications Commission regarding how to obtain consent have recently been struck down in the courts, leaving the current state of the customer proprietary network information requirements uncertain. In addition, the Federal Communications Commission recently relaxed a number of the requirements it initially adopted, which gives some flexibility to carriers on how to comply with these rules. These rules, either as adopted or as modified, may impede the ability of a telecommunications carrier to effectively market integrated packages of services and to expand existing customers' use of its services.

Universal Service. The Federal Communications Commission has recently expanded aid to schools and libraries and extensively revamped the support structure for high cost-of-service areas. These providers of interstate telecommunications services, as well as some other entities, such as private carriers offering excess capacity to end user customers, must contribute to a fund to pay for these programs. The schools and libraries and rural health care support mechanisms are assessed against interstate and international end-user revenues. The contribution level and overall size of federal support may change. Several petitions for administrative reconsideration of various Federal Communications Commission universal service orders are pending, and there are a number of other proceedings relating to universal service at the Federal Communications Commission and federal courts of appeals that are still ongoing. The rules of the Federal Communications Commission also require that telecommunications carriers contribute to the Number Portability Fund, the Telecommunications Relay Services Fund and the North American Number Plan Administrator Fund.

Communications Assistance for Law Enforcement Act. Telecommunications carriers may incur significant expenses to assure that their networks comply with the requirements of the Communications Assistance for Law Enforcement Act. Under this statute, telecommunications carriers are required to:

- provide law enforcement officials with call content and call identifying information pursuant to a valid electronic surveillance warrant; and
- provide sufficient capacity for use by law enforcement officials in executing authorized electronic surveillance.

While the telecommunications industry is attempting to negotiate legislative and administrative provisions that would compensate carriers for some of the costs associated with complying with this statute, as it stands today those issues have not been definitively resolved.

Local Exchange Carriers

Telecommunications carriers that are defined as local exchange carriers are subject to special regulatory provisions, in addition to those described above. A local exchange carrier is defined as a provider of telephone exchange service or exchange access. Telephone exchange service is defined as service within a telephone exchange or connected system of exchanges operated to provide inter-communicating service of the character ordinarily furnished by a single exchange, covered by the local exchange charge, or comparable service provided through a system of switches, transmission equipment or other facilities, or combination thereof, by which a subscriber can originate and terminate a telecommunications service. The universe of carriers that are classified as local exchange carriers has never been fully defined by the Federal Communications Commission. If an entity is found to be a local exchange carrier, it will have the following obligations:

Reciprocal Compensation. This requires all local exchange carriers to establish compensation arrangements with other carriers for the transport and termination of telecommunications.

Resale. This requires all local exchange carriers to permit resale of their telecommunications services without unreasonable restrictions or conditions.

Number Portability. This requires all local exchange carriers to permit users of telecommunications services to retain existing telephone numbers without impairment of quality, reliability or convenience when switching to another service provider at the same location.

Non-discriminatory Access and Dialing Parity. This requires all local exchange carriers to provide nondiscriminatory access to telephone numbers, operator services, directory assistance and directory listing with no unreasonable dialing delays and to give customers access to their selected carrier without having to dial extra digits.

Access to Rights-of-Way. This requires all local exchange carriers to permit competing carriers access to poles, ducts, conduits and rights of way at reasonable and nondiscriminatory rates, terms and conditions.

In addition, incumbent local exchange carriers also face additional pricing, network unbundling, and other obligations.

State Telecommunications Regulation

States also regulate telecommunications services, including through certification of providers of intrastate services, regulation of intrastate rates and service offerings, and other regulations. The Telecommunications Act prohibits state and local governments from enforcing any law, rule or legal requirement that prohibits or has the effect of prohibiting any person from providing any interstate or intrastate telecommunications service. In addition, under current policies of the Federal Communications Commission, any dedicated transmission service or facility that is used more than 10% of the time for the purpose of interstate or foreign communication is subject to the jurisdiction of the Federal Communications Commission to the exclusion of any state regulation. Under the Telecommunications Act, states retain jurisdiction to adopt regulations necessary to preserve universal service, protect public safety and welfare, ensure the continued quality of communications services and safeguard the rights of consumers. Accordingly, the degree of state involvement in local telecommunications services may be substantial. Furthermore, states generally give municipal authorities responsibility over the access to rights-of-way, franchises, zoning, and other matters of local concern, which means that localities may also have involvement in the regulation of the telecommunications industry.

Other Potential Regulation

Federal and state laws and regulations relating to the liability of online service companies and other Internet service providers for information carried on or disseminated through their networks are currently unsettled. Several private lawsuits seeking to impose this type of liability on online service companies and Internet access providers are pending. Legislation has been enacted and new legislation has been proposed that imposes liability for or prohibits transmission of some types of information on the Internet. The imposition of potential liability on us and other Internet service providers for information carried on or disseminated through our systems could require us to implement measures to reduce our exposure to this liability, which may require us to spend substantial amounts on or discontinue some of our service or product offerings. While we carry professional liability insurance, it may not be adequate to compensate or may not cover us if we become liable for information carried on or carried by our network. Any costs not covered by insurance incurred as a result of this liability or asserted liability could have a material adverse effect on our business, financial condition and results of operation. The increased attention on liability issues as a result of lawsuits and legislative actions and proposals could also impact the growth of Internet use.

Due to the increase in Internet use and publicity, it is possible that other laws and regulations will be adopted regarding the Internet, including laws pertaining to privacy, consumer protection, the dissemination of unlawful or otherwise disfavored content, and the pricing and characteristics of services or products. Additional legislative initiatives, including laws involving taxation of Internet services and transactions, Internet regulation and universal service contribution requirements for Internet providers have been proposed. The adoption of these types of laws or regulations could inhibit the continued growth of the Internet or other wide area information networks, impose additional costs on us, expose us to greater potential liability from regulatory actions or private legal proceedings or otherwise adversely affect our business operations or performance. We cannot predict the impact, if any, that those or other future laws and regulations or legal or regulatory changes may have on our business.

Other companies in our industry are not generally subject to direct regulation by the Federal Communications Commission or any other governmental agency of the United States, other than regulations that apply to all business organizations. However, in connection with the merger between Bell Atlantic and GTE, the Federal Communications Commission has reviewed our relationship with Verizon. In addition, the Federal Communications Commission continues to review its regulatory position on the usage of the basic network and communications facilities by Internet companies.

Recently, the Federal Communications Commission adopted rules that direct incumbent local exchange carriers to share their telephone lines with providers of high speed Internet access and other data services. This ruling enables competitive carriers to provide digital subscriber line-based services over the same telephone lines simultaneously used by incumbent local exchange carriers to provide basic telephone service. These changes may increase competitive pressures on incumbent local exchange carriers in the offering of advanced telecommunications services, including digital subscriber line services.

International Regulatory Matters

The laws relating to the provision of Internet and telecommunications services in other countries vary substantially from country to country and are undergoing a rapid process of development and change. There are a variety of regulations in different jurisdictions regarding the manner in which services are to be provided, and some countries impose liability for providing access to prohibited content and restrict the transfer of personal information. As we continue to expand into international markets, these laws will have an increasing impact on our operations. We do not know whether new or existing laws or regulations could have a material adverse effect on us or our ability to offer some or all of our services in any country.

The ability for us to provide some or all of our Internet and other services, including the ownership and operation of the necessary assets and facilities in any particular country, will depend upon the extent to which applicable laws and regulations permit us to provide our services. We believe that the provision of some services, such as our voice-over-IP services, is more likely to be subject to local country regulation than other Internet services provided by us. Foreign countries treat voice-over IP differently. Some countries impose no regulation on the service, while others allow voice-over-IP but grant only a limited number of licenses to providers. In some instances, the country requires licenses, but will grant an unlimited number of licenses to providers. Finally, there are some countries that prohibit the service altogether. Whether a carrier can provide voice-over-IP services in any given country thus heavily depends on local regulations and the actions of local governments.

We currently have the ability to provide services in countries without obtaining regulatory authorizations, approvals, or licenses. In eight countries (Brazil, Germany, Ireland, Italy, Japan, Mexico, The Netherlands and Spain) where we currently have or are in the process of commencing operations, we have either obtained or have applied for regulatory approvals, authorizations, or licenses. In addition, as we enter new markets, we anticipate obtaining similar approvals, authorizations and licenses as required by applicable local rules and regulations in order to acquire, own and operate the necessary assets and facilities, and to provide services, in these countries. We do not know if we will obtain the necessary local regulatory approvals to own and operate the assets and facilities necessary to provide service, or to provide the services themselves, in any country, or that local country laws or regulations will not change. Any failure to obtain approvals, or loss of authorization, to provide services in any country could have a material adverse effect on us.

Legal Proceedings

We are not involved in any legal proceedings which we believe would, if adversely determined, have a material adverse effect upon our business, financial condition or results of operations.

MANAGEMENT

The following table sets forth information concerning our executive officers and directors.

Name	Age	Position
Paul R. Gudonis	46	Chairman of the Board and Chief Executive Officer
Joseph C. Farina	50	President and Chief Operating Officer
Daniel P. O'Brien	45	Executive Vice President and Chief Financial Officer
Ira H. Parker	43	Senior Vice President, General Counsel and Secretary
Steven H. Blumenthal	46	Senior Vice President, Network Planning, Design and Engineering
Susan H. Bowman	46	Senior Vice President, Human Resources
James L. Freeze	39	Senior Vice President, Chief Strategy Officer and Director
Charles J. Gibney	54	Senior Vice President, Enterprise Solutions and Director
Michael J. Kalagher	54	Senior Vice President, Network Operations
Paul A. O'Brien	47	Senior Vice President, Sales and Marketing
Richard Stuntz	46	Senior Vice President, Network Services

Paul R. Gudonis has served as our Chairman and Chief Executive Officer since April 2000. He has led the growth of Genuity since 1994, becoming President of Genuity in 1998, one year after GTE acquired BBN. From 1990 to 1994, he served as Vice President/General Manager-International of the Communications Industry Group of EDS Corporation. Prior to 1990, Mr. Gudonis served as a senior executive at several venture-backed start-up companies in the Boston, Massachusetts area specializing in software and telecommunications services. He started his career at AT&T, launching the first cellular phone operation in the United States as Vice President-Marketing for Ameritech Mobile Communications. Mr. Gudonis serves as a director of Boston Communications Group, Inc., a provider of information technology services to the wireless industry. In addition, he is Vice Chairman of the Massachusetts High Tech Council, a director of the Massachusetts Software and Internet Council and a director of the Massachusetts Telecommunications Council. He is a founding member of the Global Internet Project, a group of Internet chief executive officers who engage in public policy advocacy in support of Internet growth and expansion. Mr. Gudonis holds a B.S. in Electrical Engineering from Northwestern University and an M.B.A. from Harvard Business School.

Joseph C. Farina will serve as our President and Chief Operating Officer upon the completion of this offering. From 1998 to 2000, he served as President and Chief Executive Officer of Bell Atlantic's Data Solutions Group. He was Executive Vice President-Operations Assurance for Bell Atlantic from 1995 to 1998. From 1993 to 1995, Mr. Farina served as both Vice President-Corporate Business Development of NYNEX Corporation, a Regional Bell Operating Company that is now part of Bell Atlantic, and President of the NYNEX Network Systems Company, leading NYNEX's international expansion into Europe and Asia. Prior to that time, he served as President of NYNEX Properties and Vice President-Operations of NYNEX Mobile Communications, where he launched the inaugural wireless service in New York City and Boston. Mr. Farina holds a B.S. from Fordham University and an M.B.A. from St. John's University.

Daniel P. O'Brien will serve as our Executive Vice President and Chief Financial Officer upon the completion of this offering. Since June 1998, Mr. O'Brien served as the Executive Vice President—Finance and Chief Financial Officer of GTE. From July 1997 to June 1998, he served as Vice President and Treasurer of GTE, and from October 1995 to July 1997 he served as Assistant Treasurer-Capital Markets of GTE. Prior to 1993, when he joined the Treasury Department of GTE, Mr. O'Brien held several positions with the Electrical Products Group of GTE, including Vice President-Controller of GTE European Lighting in Geneva, Switzerland from August 1991 to January 1993. Mr. O'Brien holds a B.S. in Chemistry from Boston College and an M.B.A. from University of Chicago.

Ira H. Parker will serve as our Senior Vice President, General Counsel and Secretary upon completion of this offering. From November 1997 to the completion of this offering, he served as Vice President and General Counsel with Genuity. In 1999, in addition to his General Counsel position at Genuity, Mr. Parker was appointed

Vice President and Deputy General Counsel of GTE. From July 1993 to November 1997, Mr. Parker was a partner in the Washington, D.C. office of the law firm of Alston & Bird, where he founded and headed the Electronic Commerce Practice Area. Prior to 1993, Mr. Parker served in a number of positions with the United States Federal Deposit Insurance Corporation, including Assistant General Counsel for Litigation and Policy from August 1989 to May 1992 and Deputy General Counsel for Litigation for the Resolution Trust Corporation from May 1992 to June 1993. In 1978, Mr. Parker received his B.A. from Brooklyn College and he received his J.D. from Emory University in 1981.

Steven H. Blumenthal will serve as our Senior Vice President, Network Planning, Design and Engineering upon the completion of this offering. Since 1977, he has held several positions with BBN Corporation and Genuity, including Vice President for Network Engineering and Technology. Mr. Blumenthal has been responsible for the engineering of Genuity's network infrastructure and the development of Internet services. He also led the design and construction of our network infrastructure. Mr. Blumenthal holds a B.S.E.E. and M.S.E.E. from the Massachusetts Institute of Technology.

Susan H. Bowman will serve as our Senior Vice President, Human Resources upon the completion of this offering. From September 1997 to the completion of this offering, Ms. Bowman served as Vice President, Human Resources for Genuity and GTE Technology Service Corporation. Prior to that time, she held several positions with GTE, including serving as the Strategic Human Resources Business Partner for the Network Operations Group. Ms. Bowman holds a Ph.D. in industrial/organizational psychology from the University of South Florida.

James L. Freeze has served as a Director since April 2000 and will serve as our Senior Vice President and Chief Strategy Officer upon the completion of this offering. From August 1999 to the completion of this offering, he served as Vice President of Business Development for Genuity. From July 1998 to August 1999, he served as a senior telecommunications analyst at Forrester Research, Inc., an Internet research firm. From June 1997 to June 1998, Mr. Freeze served as Vice President of Sales and Marketing of Genuity, an Internet service provider and web hosting company. Prior to 1997, he held several positions with CompuServe Inc., a worldwide provider of network access hosting and Internet services to the business and consumer markets. Mr. Freeze holds a B.S. and M.A. from Ohio State University and a J.D. from Capital University.

Charles J. Gibney has served as a Director since April 2000 and will serve as our Senior Vice President, Enterprise Solutions upon the completion of this offering. From April 1998 to May 2000, he served as President and General Manager of Enterprise Services of Genuity. From January 1988 to March 1998, he served as Senior Vice President of International and Corporate Business of Cable & Wireless Inc., a global communications company. From 1962 to 1988, Mr. Gibney held various positions including the director of National Sales for Sprint, a telecommunications company, and from 1962 to 1974, he held several positions with Pacific Bell, a Regional Bell Operating Company.

Michael J. Kalagher will serve as our Senior Vice President, Network Operations upon the completion of this offering. From January, 2000 to the completion of this offering, Mr. Kalagher served as Vice President of Operations and Customer Service for BBN Corporation and Genuity. From July, 1995 to December, 1999, Mr. Kalagher has held several positions, including Divisional VP of Operations and Customer Service and Vice President of Operations for our DiaLinx remote access service. From 1969 to 1995, he held several positions with Digital Equipment Corp., a supplier of networked computer systems, software and services, including serving as Operations Manager for Worldwide Marketing and Field Service Manager in the Central European Region. Mr. Kalagher studied Electrical Engineering and Business at the undergraduate level, and is a 1982 P.mD. graduate of the Harvard Business School.

Paul A. O'Brien will serve as our Senior Vice President, Sales and Marketing upon the completion of this offering. From October, 1999 to the completion of this offering, he served as Vice President of Sales and Marketing for GTEI. From April 1998 to October 1999, he was Vice President and General Manager of the IP Telecom Services business unit of GTEI. From January, 1995 to April, 1998, Mr. O'Brien served as Vice President of the Communications Industry Business unit of NCR, a provider of information technology business solutions.

From May 1990 to December 1994, he served as Vice President of Marketing for Cincinnati Bell Telephone, a telecommunications company. Prior to 1990, Mr. O'Brien held several positions with AT&T and New England Telephone. Mr. O'Brien holds a B.S. from Westfield College and an M.B.A from Suffolk University.

Richard Stuntz will serve as our Senior Vice President, Network Services upon the completion of this offering. From April 1998 to the completion of this offering, he served as Vice President and General Manager of On-Line Services for Genuity. He was previously the Vice President for Business Planning and Management from March 1997 to April 1998. From 1992 to 1997, Mr. Stuntz was first Director, and then Vice President of Contracts for BBN Corporation. Prior to joining BBN Corporation in 1986, he held several positions with Westinghouse Electric Corporation, a public utilities, manufacturing and defense contracting company. Mr. Stuntz holds a B.A. from Duke University.

Composition of Board of Directors

Upon completion of our public offering, our by-laws will provide that our board of directors will consist of no less than three persons and no more than 20. Our board of directors will consist of 10 directors: (1) three Class I directors whose terms expire at the first annual meeting of stockholders; (2) three Class II directors whose terms expire at the second annual meeting of stockholders; (3) three Class III directors whose terms expire at the third annual meeting of stockholders; and (4) one director selected annually by the holder or holders of the Class B common stock, voting separately as a class.

Under our by-laws, at our first annual meeting of stockholders at least one of the incumbent Class I directors will not be renominated for election and our board of directors will nominate at least two new Class I directors. This will increase the number of directors to 11. The Class I directors will be elected to a three-year term.

At our second annual meeting of stockholders at least one of the incumbent Class II directors will not be renominated for election and our board of directors will nominate at least two new Class II directors. This will increase the number of directors to 12. The Class II directors will be elected to a three-year term.

At our third annual meeting of stockholders at least two of the incumbent Class III directors will not be renominated for election and our board of directors will nominate at least three new Class III directors. This will increase the number of directors to 13. The Class III directors will be elected to a three year term.

For each subsequent annual meeting of stockholders, our board of directors will determine the nominees for directors in the class of directors to be elected at the meeting.

Committees of Board of Directors

We have a compensation committee comprised of and and an audit committee comprised of and . The compensation committee has the authority to approve salaries and bonuses and other compensation matters for our officers and consultants, to approve employee health and benefit plans and to administer our stock option plans. The audit committee, which is comprised of independent directors, has the authority to recommend the appointment of our independent auditors and to assist our board of directors in its review of the results and scope of audits, internal accounting controls and other accounting related matters.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the board of directors or compensation committee of any entity which has one or more executive officers serving as a member of our board of directors or compensation committee.

Director Compensation

We intend to pay cash compensation to non-employee members of our board of directors in the amount of $30,000 annually. We will reimburse each member of the board of directors for reasonable expenses incurred in connection with attending a meeting of the board of directors or any committee thereof. In addition, pursuant to our 2000 Compensation Plan for Non-Employee Directors, upon completion of this offering, each non-employee member of our board of directors will receive an option to purchase 30,000 shares of our Class A common stock at an exercise price per share equal to the initial public offering price on the front cover of this prospectus. However, any director initially elected to serve a one-year term will receive a one-time option to purchase 15,000 shares of our Class A common stock to vest at the conclusion of the term and any director initially elected to serve a two-year term will receive a one-time option to purchase 22,500 shares of our Class A common stock to vest at the conclusion of the term. These options to purchase shares shall be at an exercise price equal to the initial public offering price set forth on the cover of this prospectus.

Executive Compensation

The following table shows the cash compensation paid or accrued for the fiscal year ended December 31, 1999 to our chief executive officer and each of our four most highly compensated executives other than the chief executive officer. GTE will not compensate our officers going forward and therefore this compensation is indicative only of the historical compensation paid by GTE to these officers and is not indicative of the compensation that Genuity will pay to these individuals in the future. The arrangements regarding the future compensation and other incentives of our executive officers are currently under study.

The options granted below represent options to acquire common stock of GTE. Under the existing terms of the GTE Corporation 1997 Long-Term Incentive Plan, the offering will not result in accelerated vesting of the remaining unvested portion of these options. Instead, these options will continue to vest according to their terms. These options were granted in recognition of past service to GTE. These officers will not receive future grants of GTE or Verizon options following the offering.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation			
Name and Principal Position	Salary ($)	Bonus ($)(1)	Other Annual Compensation	Restricted Stock Awards ($)(2)(3)	Shares of GTE Common Stock Underlying Options (#)	LTIP Payments ($)(4)	All Other Compensation ($)(5)
Paul R. Gudonis Chairman and Chief Executive Officer	349,308	305,300	—	80,642	43,400	1,027,500	5,000
Charles J. Gibney Senior Vice President, Enterprise Solutions	289,808	126,200	—	27,018	15,700	319,300	14,911
Ira H. Parker Senior Vice President, General Counsel and Secretary	214,404	137,100	—	21,535	20,900	216,400	7,200
David B. Monaghan Vice President, Finance	221,708	109,700	—	26,855	12,200	333,800	12,372
Paul A. O'Brien Senior Vice President, Sales and Marketing	208,962	88,100	—	5,506	35,700	—	13,533

(1) These amounts represent the annual bonus received by each executive under the GTE Corporation 1997 Executive Incentive Plan for the year ended December 31, 1999, of which a portion has been deferred into restricted stock units payable at maturity, generally a minimum of three years from the time of deferral, in common stock of GTE. GTE restricted stock units will not be granted to these officers in the future.

(2) The number of restricted stock units received was calculated by dividing the sum of deferrals under (a) the annual bonus and (b) the LTIP payments by the average closing price of the common stock of GTE on the New York Stock Exchange Composite Transactions Tape for the twenty consecutive trading days following the release to the public of the financial results of GTE for the fiscal year in which the bonus and LTIP payments were earned. Each executive received matching restricted stock units on the basis of one additional restricted stock unit for every four restricted stock units earned. The dollar value of the matching restricted stock units is based on the average closing price of the common stock of GTE on the date of grant for each related restricted stock unit as described above. Additional restricted stock units were received on each dividend payment date based upon the amount of the dividend paid and the closing price of the common stock of GTE on the New York Stock Exchange Composite Transactions Tape on the dividend declaration date.

(3) The aggregate amount of the restricted stock units as of the end of the year ended December 31, 1999 was 12,416, 1,981, 1,000 and 4,406 for Messrs. Gudonis, Gibney, Parker and Monaghan, respectively, and the aggregate value of these restricted stock units was $876,104, $139,784, $70,562 and $310,898 for Messrs. Gudonis, Gibney, Parker and Monaghan, respectively, based solely upon the closing price of the common stock of GTE on December 31, 1999.

(4) These amounts represent payments under the GTE Corporation 1997 Long-Term Incentive Plan, of which a portion has been deferred into restricted stock units payable at maturity, generally a minimum of three years from the time of deferral, in common stock of GTE. These awards became immediately non-forfeitable and payable when the GTE stockholders and Bell Atlantic stockholders approved the merger. Each payment equaled the average of the performance percentage for each individual for the three award cycles completed prior to the date the merger was approved. We also included in these amounts projected dividends through the end of the award cycle. GTE restricted stock units will not be granted to these officers in the future.

(5) These amounts consist of contributions under the BBN Corporation Retirement Trust Agreement of $5,000 for Mr. Gudonis and under the GTE Savings Plan of $7,200 for Messrs. Gibney, Parker, Monaghan, and O'Brien. This column also includes contributions by GTE to the GTE Executive Salary Deferral Plan of $7,711, $5,172 and $6,333 for Messrs. Gibney, Monaghan and O'Brien, respectively. These executives will not be eligible to contribute to the GTE Savings Plan or the GTE Executive Salary Deferral Plan following the offering.

Option Grants in Last Fiscal Year

The following table describes grants of stock options to purchase GTE common stock to those executive officers listed in the Summary Compensation Table for the year ended December 31, 1999. These options vest as to one-third of the aggregate number of shares each year, commencing one year after the date of grant. These stock option grants included a replacement stock option feature. This feature provides that, if an executive exercises a stock option by delivering previously owned shares that are sufficient to pay the exercise price plus applicable tax withholdings, the executive will receive an additional one-time stock option grant. The number of shares represented by that option will be equal to the number of previously owned shares surrendered in this transaction. This replacement stock option will be granted with an exercise price equal to the fair market value on the date of grant. No stock appreciation rights were granted for the year ended December 31, 1999. These options were granted in recognition of past service to GTE. These officers will not receive future grants of GTE or Verizon options following the offering.

The potential realizable value is calculated based on the term of the option at its date of grant. It is calculated assuming that the fair market value of the common stock of GTE on the date of grant appreciates at the indicated annual rates compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock price. These numbers are calculated based on the requirements of the Securities and Exchange Commission and do not reflect our estimate of future stock price growth.

	Individual Grants					
Name	Shares of GTE Common Stock Underlying Options Granted	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price Per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Paul R. Gudonis	43,400	*	$65.0313	2/15/2009	$1,774,355	$4,498,105
Charles J. Gibney	15,700	*	65.0313	2/15/2009	642,092	1,627,194
Ira H. Parker	400	*	63.0313	1/10/2009	16,013	40,580
	10,100	*	65.0313	2/15/2009	413,065	1,046,794
	5,600	*	68.7500	9/1/2009	242,123	613,589
	4,800	*	73.8400	11/03/2009	222,312	564,904
David B. Monaghan	12,200	*	65.0313	2/15/2009	498,950	1,264,444
Paul A. O'Brien	8,900	*	65.0313	2/15/2009	363,988	922,422
	20,000	*	66.7500	4/29/2009	839,569	2,127,642
	6,800	*	73.8400	11/03/2009	315,792	800,280

* Less than one percent.

Fiscal Year End Option Values

The following table provides information for the executive officers listed in the Summary Compensation Table regarding exercises of GTE options during the year ended December 31, 1999 and GTE options held as of December 31, 1999. The values in the table have been calculated on the basis of the fair market value of the shares of common stock of GTE on December 31, 1999 less the applicable exercise price. These options were granted in recognition of past service to GTE. These officers will not receive further grants of GTE or Verizon options following the offering.

Name	GTE Common Stock Acquired on Exercise (#)	Value Realized ($)	Shares of GTE Common Stock Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-the-Money Options Fiscal Year End ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Paul R. Gudonis	0	0	229,075	79,400	5,426,247	923,380
Charles J. Gibney	0	0	29,700	15,700	271,947	85,371
Ira H. Parker	6,000	189,750	9,700	20,900	156,111	67,271
David B. Monaghan	6,500	282,750	38,500	12,200	839,048	66,339
Paul A. O'Brien	0	0	15,000	35,700	167,815	122,775

Awards Under Long Term Incentive Plans in Last Fiscal Year

The following table sets forth grants under the GTE Corporation 1997 Long-Term Incentive Plan to those executive officers listed in the Summary Compensation Table for the year ended December 31, 1999. These executives will receive no further awards under the GTE Corporation 1997 Long-Term Incentive Plan as of the date of the offering. In addition, any payouts to these executives will be reduced on a pro-rata basis as of the date of the offering.

Name	Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans		
			Threshold (Units)	Target (Units)	Maximum (Units)
Paul R. Gudonis	6,400	Three years	1,798	6,915	
Charles J. Gibney	1,800	Three years	506	1,945	
Ira H. Parker	2,070	Three years	575	2,211	
David B. Monaghan	1,200	Three years	337	1,297	
Paul A. O'Brien	1,350	Three years	374	1,438	

The estimated future payouts in the above table are calculated for illustrative purposes only and are based upon the dividend rate and price of the common stock of GTE at the close of business on December 31, 1999. The target award is the dollar amount derived by multiplying the number of units credited to the participant at the end of the award cycle by the average closing price of the common stock of GTE as reported on the New York Stock Exchange Composite Transactions Tape during the last 20 business days of the award cycle.

The maximum amount of the award has intentionally been left blank because it is not possible to determine the maximum number of units until the award cycle has been completed. The maximum amount of the award is determined by the extent to which the actual results of GTE for five key financial measures exceed the target levels.

Pension Plan

The following table illustrates the estimated annual benefits payable under the defined benefit pension plans of GTE. The information assumes normal retirement at age 65 and is calculated on a single life annuity basis, based upon final average earnings, integrated with social security as described below, and years of service.

	Years of Service				
Final Average Earnings	15	20	25	30	35
$ 300,000	$63,765	$85,020	$106,275	$127,530	$148,785
400,000	85,515	114,020	142,525	171,030	199,535
500,000	107,265	143,020	178,775	214,530	250,285
600,000	129,015	172,020	215,025	258,030	301,035
700,000	150,765	201,020	251,275	301,530	351,785
800,000	172,515	230,020	287,525	345,030	402,535
900,000	194,265	259,020	323,775	388,530	453,285
1,000,000	216,015	288,020	360,025	432,030	504,035

Messrs. Gibney, Parker, Monaghan and O'Brien participate in the GTE Service Corporation Plan for Employees' Pensions. The GTE Service Corporation Plan is a noncontributory pension plan for the benefit of all employees of GTE Service, a wholly owned subsidiary of GTE, and participating affiliates who are not covered by collective bargaining agreements. It provides a benefit based on a participant's years of service and earnings. Pension benefits provided by GTE Service and contributions to the GTE Service Corporation Plan are related to basic salary and incentive payments, exclusive of overtime, differentials, some types of incentive compensation and other similar types of payments. Under the GTE Service Corporation Plan, pensions are computed on a two-rate formula basis of 1.15% and 1.45% for each year of service, with the 1.15% service credit being applied to that portion of the average annual salary for the five highest consecutive years that does not exceed $33,000, which is the portion of salary subject to the Federal Social Security Act, and the 1.45% service credit being applied to that portion of the average annual salary for the five highest consecutive years that exceeds this level up to the statutory limit on compensation. As of February 29, 2000, the credited years of service under the GTE Service Corporation Plan for Messrs. Gibney, Parker, Monaghan and O'Brien were 11, 2, 31 and 1, respectively. Although these executives will no longer be employed by GTE Service and will no longer accrue a pension under the GTE Service Pension Plan as of the date of the offering, they along with other active employees of Genuity who participate in the GTE Service Corporation Plan will continue to be credited with additional years of age and service with Genuity for purposes of early retirement eligibility under the GTE Service Corporation Plan. In addition, they will have an assumed annual salary growth of 3.5% under the GTE Service Corporation Plan. These special provisions will expire upon the earliest to occur of the following: (i) the date that is five years after the date of offering, (ii) an employee's termination of employment with Genuity, or (iii) the date that Genuity becomes a majority-owned subsidiary of Verizon. Service credit for GTE retiree welfare benefits will be provided in a similar manner to the service recognition for pension purposes.

Under federal law, an employee's benefits under a qualified pension plan, such as the GTE Service Corporation Plan, are limited to set maximum amounts. GTE maintains the Excess Pension Plan, which supplements the benefits of any participant in the GTE Service Corporation Plan in an amount by which any participant's benefits under the GTE Service Corporation Plan are limited by law. In addition, the GTE Supplemental Executive Retirement Plan provides additional retirement benefits under management incentive plans or special arrangements as determined by GTE Service or one of its affiliates. The Supplemental Executive Retirement Plan and the Excess Pension Plan benefits are payable in a lump sum or an annuity.

2000 Long-Term Incentive Plan

Our employees have historically been granted options to purchase common stock of GTE. On April , 2000, our board of directors adopted the 2000 Long-Term Incentive Plan, effective immediately, which has also been approved by GTE as our sole stockholder. The 2000 Long-Term Incentive Plan provides for the grant of a variety of stock and stock-based awards and other benefits, including stock options, restricted and unrestricted shares, deferred stock, stock-based performance awards and stock appreciation rights; but excluding any short-term or long-term cash awards. The 2000 Long-Term Incentive Plan will be administered by our board of directors or by the compensation committee of our board of directors. The administrator has the authority to determine eligibility, grant awards and make all other determinations under the plan.

Our 2000 Long-Term Incentive Plan provides for the grant of both incentive stock options that qualify under Section 422 of the Internal Revenue Code and nonqualified stock options. Incentive stock options may be granted only to employees. Non-qualified stock options, and all other awards may be granted to employees, officers and directors. The option exercise price of each stock option and the amount, if any, payable by participants under other awards shall be determined by the administrator, except that stock options will not be granted with an exercise price that is less than the fair market value of the Class A common stock on the date of grant. We anticipate that we will not grant our existing employees any additional awards under the 2000 Long-Term Incentive Plan during the four-year period following the offering.

Options granted under our 2000 Long-Term Incentive Plan may have a term of up to 10 years. The awards are transferable to the extent, if any, determined by the administrator. The period or periods during which an award will be exercisable or remain outstanding, including any periods following termination of service, the manner of exercise and other details of awards will be determined by the administrator consistent with the 2000 Long-Term Incentive Plan.

We have reserved shares of our Class A common stock for issuance under the 2000 Long-Term Incentive Plan, subject to adjustment for stock splits and similar events. Concurrently with this offering, we expect to issue options to purchase shares of our Class A common stock at an exercise price equal to the initial public offering price set forth on the cover page of this prospectus. The 2000 Long-Term Incentive Plan will terminate on January , 2010, unless sooner terminated in accordance with the terms of the plan.

2000 Compensation Plan for Non-Employee Directors

The 2000 Compensation Plan for Non-Employee Directors was approved by our board of directors on April , 2000 and has been approved by GTE as our sole stockholder. Pursuant to this plan, non-employee directors who have agreed to serve on the board of directors will receive, effective upon the completion of this offering, a $30,000 annual cash fee and one-time option to purchase 30,000 shares of our Class A common stock at an exercise price equal to the initial public offering price set forth on the front cover of this prospectus. These stock options will vest in three equal installments commencing on the day of this offering and on the day immediately preceding the annual meeting of stockholders in each of the next years. However, any director initially elected to serve a one-year term will receive a one-time option to purchase 15,000 shares of our Class A common stock to vest at the conclusion of the term and any director initially elected to serve a two-year term will receive a one-time option to purchase 22,500 shares of our Class A common stock to vest at the conclusion of the term. These options to purchase shares shall be at an exercise price equal to the initial public offering price set forth on the cover of this prospectus. The administrator also has the discretion under this plan to grant options to non-employee directors in amounts and in terms as it deems is not inconsistent with the plan. We have reserved a total of shares of Class A common stock for issuance under the 2000 Compensation Plan for Non-Employee Directors, of which, after taking into account the grants expected to be made effective upon the completion of this offering, remain available for future grants.

Indemnification of Directors and Executive Officers and Limitation on Liability

Our certificate of incorporation provides that our directors will not be liable to us or our stockholders for monetary damages for any breach of fiduciary duty, except to the extent otherwise required by the Delaware General Corporation Law. This provision will not prevent our stockholders from obtaining injunctive or other relief against our directors nor does it shield our directors from liability under federal or state securities laws.

Our certificate of incorporation also requires us to indemnify our directors and officers to the fullest extent permitted by the Delaware General Corporation Law, subject to a few very limited exceptions where indemnification is not permitted by applicable law. Our certificate of incorporation also requires us to advance expenses, as incurred, to our directors and executive officers in connection with any legal proceeding to the fullest extent permitted by the Delaware General Corporation Law. These rights are not exclusive.

In addition to the indemnification provisions contained in our certificate of incorporation, before the completion of this offering, we intend to enter into indemnity agreements with each of our directors and executive officers. These agreements will provide for the indemnification of our executive officers and directors for all expenses and liabilities incurred in connection with any action or proceeding brought against them by reason of the fact that they are or were agents of Genuity. We also intend to obtain directors' and officers' insurance to provide coverage for our directors, executive officers and some of our employees for specific liabilities, including public securities matters. We believe that these indemnification provisions and agreements and this insurance are necessary to attract and retain qualified directors and officers.

The limitation of liability and indemnification provisions in our certificate of incorporation may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and other stockholders. Furthermore, the value of the Class A common stock may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

RELATED PARTY TRANSACTIONS

We have provided below a summary description of the significant agreements that we expect to execute with GTE Service Corporation and other affiliates of GTE, which will become effective at the same time as the completion of this offering. These descriptions, which summarize the material terms of the agreements, are not complete. You should read the full text of these agreements, which have been filed with the Securities and Exchange Commission as exhibits to the registration statement of which this prospectus is a part. We believe that the terms of these agreements are comparable to those that would have resulted from arms-length negotiations with parties other than GTE and its affiliates. We intend to negotiate any future agreements with Verizon on the same basis.

Transition Services Agreements

GTE and its affiliates currently provide a range of administrative and support services to us. We will enter into an Agreement for Transition Services and an Agreement for Information Technology Transition Services with GTE Service.

Agreement for Transition Services. Under this agreement, GTE Service will provide, to the extent we continue to require them on a transitional basis, the following services currently provided to us by various GTE affiliates:

- accounting and cash processing services, including payroll, asset accounting and accounts payable;
- billing and collection processing services;
- human resources services and benefits administration, including relationships with employee benefits providers; and
- real estate support services, including project management and environmental and safety services.

Agreement for Information Technology Transition Services. We and GTE Service will enter into this agreement in order to provide or receive, to the extent either party continues to require them on a transitional basis, the following services:

- software support services to ensure that software continues to run effectively after the offering; and
- hardware support services, including help desk support for personal computers, systems support centers for critical servers and local area network support.

In addition, we will provide wide area network support to GTE Service, and GTE Service will provide us with wide area network support in areas outside of Bell Atlantic's local service region. GTE Service also will provide us with computer programming and technical services, including the development of software interfaces and modifications and enhancements to existing systems.

Unless otherwise agreed, the ownership of any work product, including intellectual property, created during the provision of services under either of the transition service agreements will be determined under the terms and conditions of the Software Development and Technical Services Agreement described below. Similarly, any licenses relating to software will be granted on the same terms and conditions as used in the Software License Agreement described below.

The fees for these transition services are fixed under the agreements and were negotiated based on historical costs and comparable market prices. Both agreements have a term of one year, although some services will be used for less than a year. We will be able to terminate each or any portion of the agreements at any time upon 120 days notice to GTE Service. As an exception, the billing and collection processing services require 180 days notice in order to provide adequate transition time. GTE Service has the right to terminate the

agreements on 120 days notice only with respect to the information technology services that it receives from us. In connection with any termination or expiration, GTE Service will be obligated to cooperate with us to transition the work to another provider and to use commercially reasonable efforts to secure our continued use of any necessary third party technology.

Purchase, Resale and Marketing Agreement

We will enter into a Purchase, Resale and Marketing Agreement under which Verizon will purchase services from us that will include Internet access, value-added e-business services and private line and asychronous transfer mode transport services. Verizon will be permitted to use these services internally or resell them on a stand-alone basis or as part of a bundled solution. Those services resold by Verizon may be co-branded with us or may be branded without use of our marks. To the extent we jointly market our services with Verizon, we will do so in compliance with all applicable federal law. We will not jointly market our services with Verizon in states in which Verizon would not have legal authority under applicable federal law to operate our company. We have granted Verizon most favored customer pricing and volume-based discounts. Under the terms of the agreement, Verizon will purchase at least $500 million of our services over a five-year period. In the event that Verizon has not purchased $200 million in services by the end of the third year of the contract, it would be required to pay to us at that time the difference between the amount of services purchased to date and $200 million. Similarly, in the event Verizon has not purchased $500 million in services by the end of the fifth year of the contract, it would be required to pay to us at that time the difference between the amount of services purchased to that date, including any shortfall payment made at the end of the third year, and $500 million. The minimum purchase commitment is reduced in the event we do not comply with various obligations as to competitive pricing and other aspects of service, sale and delivery.

In order for us to properly plan for increasing demands for our services by our customers, Verizon is required to provide us with 18-month forecasts of its requirements on a quarterly basis. The agreement will remain in effect for five years and is renewable for additional one-year periods by mutual consent of the parties. Verizon may terminate the agreement on 90 days notice if a legislative or regulatory order materially or adversely changes its rights, obligations or risks in relation to the resale of our services. In this event, Verizon is obligated to cooperate with us to ensure the orderly transition to us of all outstanding reseller agreements, including the assignment of these agreements, and to reimburse us for costs incurred by us relating to this transition.

Under the agreement, Verizon must provide us with 180 days prior written notice of the date on which it intends to exercise its option to convert its Class B common stock. This notice will also indicate if there are any states in which Verizon does not expect to have legal authority under applicable federal law to operate a long distance business at the time of the conversion of the Class B common stock. Upon receipt of this notice, we will adjust our operations in the states designated by Verizon in a manner necessary to allow Verizon to be in compliance with applicable federal law in these states after Verizon obtains a greater than 10% equity interest in our capital stock. In no event will the states designated by Verizon account for more than 3% of our total revenues during the preceding 12 months. Verizon will agree to pay an amount necessary to make us financially whole as a result of our modification of our business pursuant to this arrangement.

In conjunction with the Purchase, Resale and Marketing Agreement described above, we also plan to provide to Verizon undersea cable capacity in the ARCOS-1 Caribbean Ring System and have committed to negotiate with Verizon with respect to operating capacity on the Americas III Cable Network currently under construction.

Intellectual Property Agreements

We intend to enter into the following agreements with GTE Service in order to allocate rights relating to existing and future patents, software, other types of intellectual property and technical services.

Intellectual Property Ownership and Cross License Agreement. This agreement will apportion the ownership of existing patents, patent applications and other types of intellectual property between GTE Service and us. Under the agreement, existing patents and patent applications that relate exclusively to us will be owned exclusively by us. Existing patents and patent applications that relate to both us and GTE Service will be jointly owned by us and GTE Service. The remaining existing patents and patent applications that relate to GTE Service will be owned exclusively by GTE Service. Both we and GTE Service will grant each other a perpetual, non-exclusive, royalty-free worldwide license to each other's existing patents and patent applications. In addition, we will jointly own any currently existing, non-statutory intellectual property. Those patents and patent applications that either GTE Service or we develop in the future will be owned pursuant to applicable laws or any controlling agreements.

Software License Agreement. We plan to enter into a Software License Agreement with GTE Service under which it will grant us a non-exclusive, non-transferable, worldwide license to use software programs owned by GTE Service for our internal operations. In addition, GTE Service will provide us with updates to the licensed software programs pursuant to the Agreement for Information Technology Transition Services described above. In exchange for the license, we will pay GTE Service an annual license fee for each licensed software program. The term of each license will be one year and will be automatically renewable for successive one-year periods upon the payment of annual license fees. We may terminate or cancel any software license upon 30 days written notice to GTE Service. The licenses that GTE Service will grant us pertain to the object code of the licensed software programs only. The source code of the licensed software programs will be placed in an escrow account and may be made available to us pursuant to the terms and conditions of a separate escrow agreement.

Software Development and Technical Services Agreement. Under this agreement, GTE Service will provide us with software development and other technical services. For services related exclusively to our business, the newly created deliverable, including any newly created software and accompanying documentation, and all intellectual property rights in the deliverable, will be transferred to us by GTE Service. In return, we will grant to GTE Service a perpetual, royalty-free worldwide license to any deliverable owned by us for the internal use of GTE Service only. For services not related exclusively to us, GTE Service will retain ownership of any deliverable and will grant us a non-exclusive, royalty-free, non-sublicensable, non-transferable license to use the deliverable owned by GTE Service for our internal use only. The agreement will have a term of one year and will be renewable for successive one-year terms by mutual consent of the parties. We may terminate the agreement at any time following written notice to GTE Service.

Network Monitoring Agreement

Under the terms of an existing agreement, we receive continuous monitoring for some elements of our network infrastructure from GTE Network Services, including monitoring of network-enabling devices and processes to detect anomalies occurring in the network. The fees for monitoring services are fixed under the agreement and were negotiated based on historical costs and comparable market prices. The agreement may be terminated by us on 90 days notice.

Real Estate Agreements

We plan to enter into several agreements with Verizon to allocate space in various leased and owned properties between us and Verizon. None of the properties involved are material to our operations or business. Provisions of each agreement, including the lease and sublease payment of rent terms, vary depending on the underlying lease at the specified property and the result of negotiations pertaining to specific issues at a specified property.

We will also enter into real estate guaranty agreements with GTE and Verizon. GTE has agreed to either issue new or continue existing guaranties to support our real estate obligations. GTE has agreed to continue

these guaranties until six months following this offering or the date on which both Standard & Poor's and Moody's publish a credit rating for us, whichever occurs first. We have agreed to pay GTE a commercially reasonable fee during the time the guaranties are in force.

Registration Rights Agreement

We plan to enter into a Registration Rights Agreement with Verizon under which Verizon will have the right to require us to register shares of Class A common stock that are issued following conversion of our Class C common stock, which will have been issued upon conversion of Class B common stock. Verizon shall be entitled to demand registrations and will be able to participate in any offering of our securities by us or for the account of any of our other securityholders. Verizon will have the right to transfer or assign this agreement, in whole or in part, to any transferee of its Class B common stock or Class C common stock.

Subscription Agreement

GTE will execute a subscription agreement in connection with its receipt of the Class B common stock. Under this agreement, GTE will exchange all of the shares of our common stock that it owns for such number or shares of Class B common stock that will equal 10% of the total number of shares of our common stock immediately after the completion of this offering. The subscription agreement contains customary representations and warranties, including with respect to the issuance of the Class B common stock. The subscription agreement also includes provisions enabling Verizon to purchase additional shares of Class B common stock under the circumstances described in the section in "Description of Capital Stock" entitled "Right to Purchase Additional Shares Upon Conversion." In addition, the subscription agreement contains provisions requiring us to obtain the consent of the holders of a majority of the outstanding Class B common stock prior to taking the following actions:

- making acquisitions or entering into joint ventures involving cash, stock, stock equivalents or assets in excess of $100 million individually or $500 million in the aggregate during any 12-month period;
- making any dispositions of assets outside the ordinary course of business within the first two years after this offering and, thereafter, making dispositions of assets in excess of $50 million individually or $250 million in the aggregate in any 12-month period;
- incurring, during any 12-month period, indebtedness that exceeds an anticipated debt level for that period to be jointly agreed upon by us and GTE prior to the completion of this offering;
- entering into agreements or arrangements that contain provisions that trigger a default or require a material payment when Verizon exercises its conversion right; and
- declaring extraordinary dividends or making other distributions to the holders of our common stock, including our Class A common stock.

We will not be required to obtain the consent of the holders of the Class B common stock to take the above actions if at any time:

- Verizon controls more than 50% of the then outstanding shares of Class B common stock, and the common stock controlled by Verizon and its affiliates constitutes less than 10% of our outstanding common stock on an as converted basis; or
- Verizon controls 50% or less of the outstanding shares of Class B common stock, and the outstanding shares of Class B common stock constitute 50% or less of our outstanding common stock on an as converted basis.

Verizon has the right to transfer some or all of its shares of Class B common stock to one or more parties that would be able to prevent us from taking the actions described above.

SOLE STOCKHOLDER

Prior to this offering, all of the outstanding shares of our common stock will be owned by GTE. The mailing address of GTE Corporation is 1255 Corporate Drive, Irving, Texas 75038. Upon completion of this offering, Verizon will beneficially hold all of the outstanding shares of our Class B common stock, which will represent 10% of the voting power of our outstanding capital stock at that time, before giving effect to any outstanding options to purchase shares of our Class A common stock under our long-term incentive plans. Except for Verizon, we are not aware of any person or group that will beneficially own more than five percent of our Class A common stock or Class B common stock upon completion of this offering. There will not be any shares of our Class C common stock outstanding immediately after this offering.

None of our directors and executive officers beneficially owns any shares of our common stock. We intend to grant to our officers and directors options to purchase an aggregate of shares of our Class A common stock with an exercise price equal to the public offering price set forth on the cover page of this prospectus.